

FY 2002 ANNUAL FINANCIAL STATEMENTS

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CHIEF FINANCIAL OFFICER'S ANALYSIS OF EPA'S FISCAL YEAR 2002 AND 2001 FINANCIAL STATEMENTS

Summary of Auditor's Report and Opinions

The Environmental Protection Agency (EPA) prepared the following Fiscal Year (FY) 2002 Financial Statements: Statement of Financial Position (Balance Sheet), Statement of Changes in Net Position, Statement of Net Cost, Statement of Budgetary Resources, Statement of Financing, and Statement of Custodial Activity. In addition, we prepared a Statement of Net Cost by Goal for each of the Agency's 10 Strategic Goals.

The Office of Inspector General (OIG) stated: "In our opinion, the consolidating financial statements present fairly the consolidated and individual assets, liabilities, net position, net cost, net cost by goal, changes in net position, reconciliation of net cost to budgetary obligations, and custodial activity of the U.S. Environmental Protection Agency and its subsidiary funds, the Superfund Trust Fund and All Other Appropriated Funds, as of and for the years ended September 30, 2002 and 2001, and budgetary resources as of and for the year ended September 30, 2002, in accordance with generally accepted accounting principles."

Report on Internal Controls

The OIG's Audit Report on the EPA's Fiscal 2002 and 2001 Financial Statements did not identify any material weaknesses. However, the Report cited seven reportable conditions. These reportable conditions are summarized below, along with a short statement of the Agency's position with respect to each of those items.

- **Documentation and Approval of Journal Vouchers**—The OIG noted that the Agency did not always adequately document journal vouchers and standard vouchers prior to the transactions being entered into the Agency's Integrated Financial Management System (IFMS). The OIG ascertained that most of the entries appeared to be correct but was concerned about the vulnerability associated with executing transactions without proper documentation and supervisory review and approval. The Office of the Chief Financial Officer (OCFO) will issue a general reminder to the staff to fully document and support all entries to IFMS.
- Reconciling Superfund State Cost Share Contracts—The OIG noted that improvement was
 needed in reconciling unearned revenue for State Superfund Contracts (SSC). EPA did not reconcile
 the unearned revenue from SSC for FY 2002 because the Agency relied on its accounting system's
 internal controls and regional year-end adjustments to unearned revenue. As a result, the Agency
 could not ensure the accuracy of the SSC unearned revenue accounts, which totaled approximately
 \$45 million.

EPA agrees that improvement is needed. As a result of the audit findings and the subsequent reconciliation, the Agency was able to make on-top adjustments for most of the regional errors and reduce the overall variance to avoid a material misstatement of Unearned Advances. In the future, the Agency will calculate the SSC revenue and perform a reconciliation at year end to validate the unearned revenue remaining after the regional SSC accruals have been posted. The OCFO will issue additional written guidance to the regions on how to calculate the accruals and increase their oversight.

¹ A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement of amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

- **Reconciliation of Deferred Cashouts**—The OIG found that EPA regions did not periodically reconcile the uncollected receivables for Superfund cashouts to the general ledger liability accounts. Cashouts represent money that potentially responsible parties agree to pay EPA to fund future cleanup work at Superfund sites. The OCFO agrees with the need to prepare written guidance for reconciling uncollected cashout accounts and will issue written guidance for reconciliation.
- Integrated Grants Management System Security Plan Compliance with Federal Requirements—The OIG noted the Integrated Grants Management System (IGMS) Security Plan did not adequately describe the security requirements nor the controls used to protect the System and its data. The Office of Grants and Debarment agrees with the OIG's recommendation to revise the IGMS Security Plan to include requirements identified in the Joint Financial Management Improvement Program (JFMIP) standards for financial systems and the National Institute of Standards and Technology Standard 800-18.
- Automated Application Processing Controls—As part of the OIG's FY 2002 financial statement audit, the OIG evaluated the Agency's Integrated Financial Management System (IFMS) replacement activities and found that EPA has taken tangible steps to replace IFMS through the Financial Replacement System project. The OIG believes that EPA is moving in a credible fashion towards replacing IFMS and made no recommendations in this area at this time.
- Capitalization of Superfund Contractor-Held Property—The OIG recommended that the OCFO capitalize current Superfund site-specific contractor-held property costs meeting capitalization thresholds and only remove property from the general Property, Plant, and Equipment accounts in accordance with Statement of Federal Financial Accounting Standards (SSFAS) No. 6, Accounting for Property, Plant, and Equipment. EPA agrees with the OIG's recommendation and will issue written guidance on capitalization criteria.
- Revenue Recognition on Cashouts—The OIG cited the Agency for not restating the FY 2001 statements to properly characterize a \$53 million on-top adjustment as unearned revenue from future costs or earned revenue from past costs. In response, EPA restated in the FY 2002 statements its FY 2001 Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Financing to correctly reflect the prior year's revenue and net position. The OCFO also has implemented additional internal controls to ensure that the Agency complies with financial reporting standards for reporting corrections of errors.

Compliance with Laws and Regulations

Noncompliance Issues with Federal Financial Management Improvement Act (FFMIA)

The OIG identified no substantial noncompliance issues with FFMIA. However, they did note four other noncompliances.

• **EPA did not comply with the Managerial Cost Accounting Standard**—The OIG believed the OCFO did not comply with the FFMIA concerning the SSFAS No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government." While the OCFO agrees that improvements in cost accounting can be made, and has continued to take initiative as a federal leader in this area, we also believe that the Agency substantially complies with this Standard.

The OIG recommends that the OCFO set a goal to provide EPA managers with useful and timely reports that present the full costs of their outputs and programs by the end of the fiscal year. The OIG also recommended that we change the Agency's cost accounting outputs so that they correspond to discrete products and services that the Agency produces. However, we believe that

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having the capability to provide information at the subobjective level is appropriate for defining "products and services" and that this information is useful to managers. The Agency is now moving from ten goals to five in the new Strategic Plan and will further evaluate what information EPA managers need under that new structure. The OCFO believes the new structure will provide more detailed accounting for Agency resources and programs. We also are continuing to enhance our management reporting tools and capabilities.

- Reconciliation of intra-governmental transactions is not in compliance with Office of Management and Budget (OMB) and Treasury Financial Manual requirements—The OIG reported that EPA continues to experience difficulties in reconciling some of its intragovernmental assets and liabilities because some federal entities do not perform corresponding reconciliations. The OIG noted that this is a government-wide issue and they made no recommendations at this time. They encouraged EPA to continue their proactive efforts in reconciling the Agency's intragovernmental transactions in order to comply with federal financial reporting requirements. We appreciate the OIG's recognition of our efforts. The OCFO will continue to participate in government-wide initiatives to overcome the difficulties of reconciling intergovernmental transactions between agencies.
- The Contract Payment System (CPS) is not in compliance with the Joint Financial Management Improvement Program system requirements—The OIG stated that during FY 2002 CPS was not in compliance with JFMIP mandatory system requirements because no report existed to reconcile the total number of dollars and transactions transferred daily between CPS and IFMS. Subsequent to the OIG review, OCFO staff modified the CPS reporting package to address the OIG's concerns.
- The fiscal 1999 Remediation Plan to correct some FFMIA issues has not been completed—
 The OIG reported that EPA had not yet completed two key action items from the Office of Chief
 Financial Officer's 1999 Remediation Plan for achieving compliance with FFMIA requirements. The
 OCFO is taking action to correct the remaining issues. Specifically, the OCFO will work with the
 Office of Administration and Resources Management to firm up milestone dates for establishing a
 security certification process for key personnel and will revise the Remediation Plan to identify
 responsibility for the security certification process, set a target date for completion of the action,
 and provide a revised status report to OMB to disclose the changes made.

Compliance with the Food Quality Protection Act of 1996

The OIG found that the Agency was not in compliance with the requirements of the Food Quality Protection Act of 1996 (the Act) because it exceeded the amount of maintenance fees that could be used for expedited processing. The Agency subsequently made adjustments to correct the noncompliance and will closely monitor future amendments to the Act to identify any potential revisions that will affect compliance requirements.

Compliance with the Treasury Financial Manual

The OIG found that the Agency does not prepare the SF 224 Statement of Transactions in accordance with the Treasury Financial Manual. The OCFO concurs and has taken appropriate action to develop, document, and implement procedures to ensure that the Agency's financial processes relating to SF 224 reporting, reconciliation, and maintenance of fund balances with Treasury are in line with the Treasury Financial Manual.

Progress in Correcting Previously Identified Problems

OCFO management believes that audit followup is an integral part of good management and that corrective actions are essential to improving the effectiveness and efficiency of government operations. To resolve long-standing audit recommendations, the OCFO formed an Audit Followup Council in July 2000 to review progress on audit findings, discuss approaches to resolving audit issues, and provide coordination and support across the OCFO on audit related matters.

As a result of the Council's efforts, the Agency has resolved several long-standing issues. During the audit of the FY 2001 financial statements, the OIG noted substantial progress in completing a number of corrective actions from prior years. In FY 2002 EPA completed corrective action for the interagency agreement invoice approval process by implementing an automated project officer notification. The Agency and the OIG are working to resolve three remaining issue areas from prior financial statements audits. Those areas are as follows:

- **Automated Application Processing Controls for IFMS**—The OIG acknowledges that the Agency plans to replace IFMS with a new automated accounting system. Until the Agency implements the new accounting system, the OIG states that they will continue to mention this area as a reportable condition.
- **Financial System Security Plans**—The OIG determined that two related corrective actions in EPA's Remediation Plan were incomplete. The Agency is taking corrective action.
- Managerial Cost Accounting Standards

 —The OIG no longer views this audit issue area as a
 substantial noncompliance because of Agency enhancements to its reporting capabilities and
 additional ongoing initiatives.

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ENVIRONMENTAL PROTECTION AGENCY CONSOLIDATING BALANCE SHEET

AS OF SEPTEMBER 30, 2002 AND 2001 (*Restated*See Notes 36 and 37*)

(Dollars in Thousands)

	Superfund Trust Fund FY 2002	Superfund Trust Fund FY 2001*	All Others FY 2002	All Others FY 2001	Combined Totals FY 2002
ASSETS					
Intragovernmental:					
Fund Balance with Treasury (Note 2)	\$ 32,229	\$ 6,706	\$11,688,934	\$11,272,374	\$11,721,163
Investments (Note 4)	3,309,975	3,724,044	1,952,052	1,778,818	5,262,027
Accounts Receivable, Net (Note 5)	33,309	31,178	72,298	69,977	105,607
Other (Note 6)	4,520	5,521	4,578	4,386	9,098
Total Intragovernmental	\$ 3,380,033	3,767,449	13,717,862	13,125,555	17,097,895
Cash and Other Monetary Assets (Note 3)	0	0	10	0	10
Accounts Receivable, Net (Note 5)	411,437	466,038	49,398	75,027	460,835
Loans Receivables, Net - Nonfederal (Note 7)	0	0	64,646	75,552	64,646
Property, Plant and Equipment, Net (Notes 9 and 37)	38,746	40,169	551,336	526,893	590,082
Other (Note 6)	780	8,876	4,937	1,128	5,717
Total Assets	\$ 3,830,996	\$ 4,282,534	\$14,388,189	\$13,804,155	\$18,219,185
LIABILITIES					
Intragovernmental					
Accounts Payable and Accrued Liabilities (Note 8)	\$ 116,239	\$ 123,537	\$ 43,983	\$ 41,659	\$ 160,222
Debt Due to Treasury (Note 10)	0	0	24,290	31,124	24,290
Custodial Liability (Note 11)	0	0	69,706	77,778	69,706
Other (Note 12)	23,727	21,308	26,381	27,507	50,108
Total Intragovernmental	139,966	144,845	164,360	178,068	304,326
Accounts Payable and Accrued Liabilities (Note 8)	145,805	137,735	511,236	655,274	657,041
Pensions and Other Actuarial Liabilities (Note 14)	7,698	7,731	31,759	31,902	39,457
Environmental Cleanup Costs (Note 20)	0	0	13,309	14,528	13,309
Cashout Advances, Superfund (Notes 15 and 36)	337,139	447,955	0	0	337,139
Commitments and Contingencies (Note 18)	0	3,778	20	6,020	20
Payroll and Benefits Payable (Note 33)	39,136	35,111	177,432	163,730	216,568
Other (Notes 12 and 13)	45,515	27,659	47,479	60,536	92,994
Total Liabilities	\$ 715,259	\$ 804,814	\$ 945,595	\$ 1,110,058	\$ 1,660,854
NET POSITION					
Unexpended Appropriations (Note 16)	\$ 0	\$ 0	\$10,923,889	\$10,358,961	\$10,923,889
Cumulative Results of Operations (Notes 36 & 37)	3,115,737	3,477,720	2,518,705	2,335,136	5,634,442
Total Net Position	3,115,737	3,477,720	13,442,594	12,694,097	16,558,331
Total Liabilities and Net Position	\$ 3,830,996	\$ 4,282,534	\$14,388,189	\$13,804,155	\$18,219,185

 $^{{\}it * Casbout Advances; Property, Plant and Equipment, Net; and Cumulative Results of Operations, Superfund, are restated for FY 2001.}$

The accompanying notes are an integral part of these statements.

ENVIRONMENTAL PROTECTION AGENCY CONSOLIDATING BALANCE SHEET

AS OF SEPTEMBER 30, 2002 AND 2001 (*Restated*See Notes 36 and 37*)

(Dollars in Thousands)

	Combined Totals FY 2001*		ntra-agency Elimination FY 2002	ntra-agency Elimination FY 2001	Consolidated Totals FY 2002	Consolidated Totals FY 2001*
ASSETS Intragovernmental						
Fund Balance With Treasury (Note 2) Investments (Note 4) Accounts Receivable, Net (Note 5) Other (Note 6)	\$ 11,279,080 5,502,862 101,155 9,907	\$	0 0 (47,412) (4,447)	\$ 0 0 (48,128) (5,739)	\$ 11,721,163 5,262,027 58,195 4,651	\$ 11,279,080 5,502,862 53,027 4,168
Total Intragovernmental	\$16,893,004	\$	(51,859)	\$ (53,867)	\$17,046,036	\$16,839,137
Cash and Other Monetary Assets (Note 3) Accounts Receivable, Net (Note 5) Loans Receivable, Net - Nonfederal (Note 7) Property, Plant and Equipment, Net (Note 9 and 37) Other (Note 6)	0 541,065 75,552 567,062 10,006		0 0 0 0	0 0 0 0	10 460,835 64,646 590,082 5,717	0 541,065 75,552 567,062 10,006
Total Assets	\$ 18,086,689	\$	(51,859)	\$ (53,867)	\$ 18,167,326	\$ 18,032,822
LIABILITIES Intragovernmental Accounts Payable and Accrued Liabilities (Note 8) Debt Due to Treasury (Note 10) Custodial Liability (Note 11) Other (Note 12)	\$ 165,196 31,124 77,778 48,815	\$	(47,480) 0 0 (4,379)	\$ (48,512) 0 0 (5,355)	\$ 112,742 24,290 69,706 45,729	\$ 116,684 31,124 77,778 43,460
Total Intragovernmental	\$ 322,913	\$	(51,859)	\$ (53,867)	\$ 252,467	\$ 269,046
Accounts Payable and Accrued Liabilities (Note 8) Pensions and Other Actuarial Liabilities (Note 14) Environmental Cleanup Costs (Note 20) Cashout Advances, Superfund (Notes 15 and 36) Commitments and Contingencies (Note 18) Payroll and Benefits Payable (Note 33) Other (Notes 12 and 13)	793,009 39,633 14,528 447,955 9,798 198,841 88,195	_	0 0 0 0 0 0	0 0 0 0 0 0	657,041 39,457 13,309 337,139 20 216,568 92,994	793,009 39,633 14,528 447,955 9,798 198,841 88,195
Total Liabilities	\$ 1,914,872	\$	(51,859)	\$ (53,867)	\$ 1,608,995	\$ 1,861,005
NET POSITION Unexpended Appropriations (Note 16) Cumulative Results of Operations (Notes 36 & 37)	\$ 10,358,961 5,812,856	\$	0	\$ 0	\$ 10,923,889 5,634,442	\$ 10,358,961 5,812,856
Total Net Position	16,171,817		0	0	16,558,331	16,171,817
Total Liabilities and Net Position	\$ 18,086,689	\$	(51,859)	\$ (53,867)	\$ 18,167,326	\$ 18,032,822

^{*} Cashout Advances; Property, Plant and Equipment, Net; and Cumulative Results of Operations, Superfund, are restated for FY 2001.

The accompanying notes are an integral part of these statements.

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ENVIRONMENTAL PROTECTION AGENCY CONSOLIDATING STATEMENT OF NET COST

FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001 (Restated*See Notes 36 and 37)

(Dollars in Thousands)

		Superfund Trust Fund FY 2002		Superfund Trust Fund FY 2001*		All Others FY 2002		All Others FY 2001*		Combined Totals FY 2002
Costs										
Intragovernmental	\$	348,980	\$	426,499	\$	782,110	\$	710,290	\$	1,131,090
With the Public		1,209,338		1,177,849		5,678,789		5,784,628		6,888,127
Expenses from Other Appropriations (Note 23)	_	114,297	_	103,654	_	(114,297)	_	(103,654)	_	0
Total Costs (Note 37)	\$	1,672,615	\$	1,708,002	\$	6,346,602	\$	6,391,264	\$	8,019,217
Less:										
Earned Revenues, Federal (Note 19)		22,932				104,318				127,250
Earned Revenues, Nonfederal (Note 19)	_	477,768	_		_	24,927	_		_	502,695
Total Earned Revenues (Notes 19 and 36)	\$	500,700	_	435,141	\$	129,245	_	77,933	\$	629,945
NET COST OF OPERATIONS	\$	1,171,915	\$	1,272,861	\$	6,217,357	\$	6,313,331	\$	7,389,272

ENVIRONMENTAL PROTECTION AGENCY CONSOLIDATED STATEMENT OF NET COST

FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001 (Restated*See Notes 36 and 37)

(Dollars in Thousands)

		Combined Totals FY 2001*	El	ntra-agency iminations 2002		ntra-agency liminations FY 2001	Co	onsolidated Totals FY 2002	Co	onsolidated Totals FY 2001*
Costs										
Intragovernmental	\$	1,136,789	\$	(20,795)	\$	(19,627)	\$	1,110,295	\$	1,117,162
With the Public		6,962,477		0		0		6,888,127		6,962,477
Expenses from Other Appropriations (Note 23)	_	0	_	0	_	0	_	0	_	0
Total Costs (Note 37)	\$	8,099,266	\$	(20,795)	\$	(19,627)	\$	7,998,422	\$	8,079,639
Less:										
Earned Revenues, Federal (Note 19)				(20,795)				106,455		
Earned Revenues, Nonfederal (Note 19)	_		_	0	_		_	502,695	_	
Total Earned Revenues (Notes 19 and 36)	_	513,074	\$	(20,795)	_	(19,627)	\$	609,150	_	493,447
NET COST OF OPERATIONS	\$	7,586,192	\$	0	\$	0	\$	7,389,272	\$	7,586,192
					_					

The accompanying notes are an integral part of these statements.

ENVIRONMENTAL PROTECTION AGENCY CONSOLIDATED STATEMENT OF NET COST BY GOAL FOR THE YEAR ENDED SEPTEMBER 30, 2002

(Dollars in Thousands)

		Clean Air	Clean and Safe Water	Safe Food	Pollution Prevention	Better Waste Management		Global Risks
COSTS								
Intragovernmental	\$	101,347	183,063 \$	37,022	\$ 55,734	\$ 440,640	\$	36,020
With the Public		487,461	3,264,051	91,795	253,462	1,488,511		206,938
Total Costs		588,808	3,447,114	128,817	309,196	1,929,151		242,958
Less:								
Earned Revenue, Federal		266	3,744	109	1,497	92,691		4,081
Earned Revenue, Nonfederal		25	2,290	14,960	1,193	473,739		586
Total Earned Revenue (Note 19)		291	6,034	15,069	2,690	566,430		4,667
Management Cost Allocation	_	59,337	87,575	26,585	37,863	143,513	_	16,636
NET COST OF OPERATIONS	\$	647,854	3,528,655 \$	140,333	\$ 344,369	\$ 1,506,234	\$	254,927

ENVIRONMENTAL PROTECTION AGENCY CONSOLIDATED STATEMENT OF NET COST BY GOAL FOR THE YEAR ENDED SEPTEMBER 30, 2001 (Restated*See Notes 36 and 37)

(Dollars in Thousands)

	Clean Air		Clean and Safe Water	Safe Food		Pollution Prevention		Better Waste Management*	Global Risks
COSTS									
Federal	\$ 87,360	\$	156,900	\$ 30,210	\$	41,065	\$	465,452	\$ 39,816
With the Public	458,256		3,482,906	77,687		236,933		1,441,486	186,919
Total Costs (Note 37)	545,616		3,639,806	 107,897		277,998		1,906,938	226,735
Less:									
Earned Revenue (Note 36)	702		4,966	17,051		1,545		457,649	7,286
Total Earned Revenue (Note 19)	702		4,966	 17,051		1,545	_	457,649	7,286
Management Cost Allocation	 	-		 	_		_		
NET COST OF OPERATIONS	\$ 610,872	\$_	3,711,968	\$ 124,503	\$	318,520	\$	1,553,091	\$ 242,731

Detailed descriptions of the above Goals are provided in EPA's FY 2002 Annual Report, Section II - Performance Results.

The accompanying notes are an integral part of these statements.

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ENVIRONMENTAL PROTECTION AGENCY CONSOLIDATED STATEMENT OF NET COST BY GOAL FOR THE YEAR ENDED SEPTEMBER 30, 2002

(Dollars in Thousands)

	Environ. Info	Sound Science		Credible Deterrent	N	Effective lanagement	N	lot Assigned to Goals**	Consolidated Totals
COSTS									
Intragovernmental	\$ 60,624 \$	62,030	\$	106,374	\$	23,393	\$	4,048	\$ 1,110,295
With the Public	193,241	263,592		281,171		366,798		(8,893)	6,888,127
Total Costs	253,865	325,622		387,545		390,191		(4,845)	7,998,422
Less:									
Earned Revenue, Federal	130,237	800		234		(125,025)		(2,179)	106,455
Earned Revenue, Nonfederal	154	84		914		3,300		5,450	502,695
Total Earned Revenue (Note 19)	130,391	884		1,148		(121,725)	Ξ	3,271	609,150
Management Cost Allocation	28,089	30,408	_	81,910	_	(511,916)	_	0	0
NET COST OF OPERATIONS	\$ 151,563 \$	355,146	\$	468,307	\$	0	\$_	(8,116)	\$ 7,389,272

ENVIRONMENTAL PROTECTION AGENCY CONSOLIDATED STATEMENT OF NET COST BY GOAL FOR THE YEAR ENDED SEPTEMBER 30, 2001 (Restated*See Notes 36 and 37)

(Dollars in Thousands)

		Environ. Info	Sound Science		Credible Deterrent	N	Effective lanagement	N	lot Assigned to Goals**	Со	nsolidated Totals
COSTS											
Federal	\$	41,540	\$ 58,804	\$	100,116	\$	66,461	\$	29,438	\$	1,117,162
With the Public		126,154	290,056		299,021		424,036		(60,977)		6,962,477
Total Costs (Note 37)		167,694	348,860	_	399,137		490,497	_	(31,539)		8,079,639
Less:											
Earned Revenue (Note 36)		324	706		786		4,330		(1,898)		493,447
Total Earned Revenue (Note 19)		2,335,136	10,358,961	_	786		10,358,961	_	(1,898)		493,447
Management Cost Allocation	_			_		_		_		_	
NET COST OF OPERATIONS	\$ ((2,167,442)	\$ (2,654,016)	\$_	398,351	\$	(2,512,379)	\$_	(29,641)	\$	7,586,192

Detailed descriptions of the above Goals are provided in EPA's FY 2002 Annual Report, Section II - Performance Results.

The accompanying notes are an integral part of these statements.

^{**}See Note 30.

ENVIRONMENTAL PROTECTION AGENCY CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION FOR THE YEAR ENDED SEPTEMBER 30, 2002

(Dollars in Thousands)

		Cumulative Results of Operations Superfund Trust Fund		Cumulative Results of Operations All Others		Unexpended propriations All Others		Cumulative Results of Operations Consolidated Totals*	App	Unexpended propriations Consolidated Totals*
Net Position - Beginning of Period, restated (Notes 36 and 37)	\$	3,477,720	\$	2,335,136	\$ 1	0,358,961	\$	5,812,856	\$ 1	0,358,961
Budgetary Financing Sources:										
Appropriations Received		0		0		7,356,085		0		7,356,085
Appropriations Transferred In/Out (Note 31)		0		0		28,598		0		28,598
Other Adjustments (Note 34)		0		0		(35,460)		0		(35,460)
Appropriations Used		0		6,784,295	((5,784,295)		6,784,295	((5,784,295)
Nonexchange Revenue (Notes 17 and 35)		108,038		260,111		0		368,149		0
Transfers In/Out (Note 31)		(103,448)		63,672		0		(39,776)		0
Trust Fund Appropriations (Note 17)		676,292		(676,292)		0		0		0
Income from Other Appropriations (Note 23)	_	114,297	_	(114,297)	_	0	_	0	_	0
Total Budgetary Financing Sources	\$	795,179	\$	6,317,489	\$	564,928	\$	7,112,668	\$	564,928
Other Financing Sources:										
Transfers In/Out (Note 31)		47		398		0		445		O
Imputed Financing Sources (Note 32)		14,706		83,039		0		97,745		0
Total Other Financing Sources	\$	14,753	\$	83,437	\$	0	\$	98,190	\$	0
Net Cost of Operations	(1	,171,915)	((6,217,357)		0	(7,389,272)		0
Net Position - End of Period	\$	3,115,737	\$	2,518,705	\$ 1	0,923,889	\$	5,634,442	\$ 1	0,923,889

The accompanying notes are an integral part of these statements.

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^{*} This statement does not have any intra-agency eliminations for FY 2002.

ENVIRONMENTAL PROTECTION AGENCY CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION FOR THE YEARS ENDED SEPTEMBER 30, 2001 (Restated*See Notes 36 and 37)

(Dollars in Thousands)

	Superfund Trust Fund FY 2001*	All Others FY 2001	Combined Totals FY 2001*	Intra-agency Eliminations FY 2001	Consolidated Totals FY 2001*
Net Cost of Operations (Notes 36 and 37)	<u>\$ 1,272,861</u>	\$ 6,313,331	\$ 7,586,192	<u>\$</u> 0	\$ 7,586,192
Financing Sources					
(Other Than Exchange Revenues):					
Appropriations Used	0	6,867,762	6,867,762	0	6,867,762
Taxes & Non Exchange Interest (Note 17)	226,861	276,346	503,207	0	503,207
Other Non Exchange Revenue	2,775	11,878	14,653	0	14,653
Imputed Financing (Notes 32)	13,686	77,855	91,541	0	91,541
Trust Fund Appropriations (Note 17)	633,603	(633,603)	0	0	0
Transfers-In (Note 31)	0	62,861	62,861	(47,894)	14,967
Transfers-Out (Note 31)	(127,927)	0	(127,927)	47,894	(80,033)
Income from Other Appropriations (Note 23)	103,654	(103,654)	0	0	0
Net Change in Cumulative Results of Operations	(420,209)	246,114	(174,095)	0	(174,095)
Increases/Decreases in Unexpended Appropriations	0	239,122	239,122	0	239,122
Change in Net Position	(420,209)	485,236	65,027	0	65,027
Net Position - Beginning of Period	3,875,439	12,208,861	16,084,300	0	16,084,300
Prior Period Adjustment (Note 37)	22,490		22,490		22,490
Adjusted Net Position - Beginning of Period	3,897,929	12,208,861	16,106,790	0	16,106,790
Net Position - End of Period (Notes 36 and 37)	\$ 3,477,720	\$ 12,694,097	\$16,171,817	\$ 0	\$16,171,817

The accompanying notes are an integral part of these statements.

ENVIRONMENTAL PROTECTION AGENCY COMBINED STATEMENT OF BUDGETARY RESOURCES FOR THE YEAR ENDED SEPTEMBER 30, 2002

(Dollars in Thousands)

		Superfund Trust Fund FY 2002		All Others FY 2002		Combined Totals FY 2002
Budgetary Resources						
Budget Authority:						
Appropriations Received	\$	0	\$	7,371,085	\$	7,371,085
Borrowing Authority		0		0		0
Net Transfers		1,329,490		101,010		1,430,500
Other		0		0		0
Unobligated Balances:						
Beginning of Period		714,321		1,911,304		2,625,625
Net Transfers, Actual		0		500		500
Anticipated Transfers Balance		0		0		0
Spending Authority from Offsetting Collections:		102.025		2(2.102		455.027
Earned and Collected Receivable from Federal Sources		193,835		262,102		455,937
Change in Unfilled Customer Orders		3,523		1,410		4,933
Advance Received		(22,548)		2,133		(20,415)
Without Advance from Federal Sources		1,749		62,549		64,298
Anticipated for Rest of Year		1,/49		02,549		04,290
Transfers from Trust Funds		0		48,671		48,671
Total Spending Authority from Collections	\$	176,559	\$	376,865	\$	553,424
Recoveries of Prior Year Obligations (Note 26)	Ψ	230,628	4	89,440	4	320,068
Permanently Not Available (Note 26)		(2,000)		(42,292)		(44,292)
Total Budgetary Resources (Note 25)	\$	2,448,998	\$	9,807,912	\$	12,256,910
•	<u> </u>		Ė		Ė	
Status of Budgetary Resources						
Obligations Incurred:	ф	1 5 40 (50	\$	7.514.054	d	0.062.704
Direct Reimbursable	\$	1,548,650 149,354	Ф	7,514,054 248,610	Ф	9,062,704 397,964
Total Obligations Incurred (Note 25)	\$	1,698,004	\$	7,762,664	\$	9,460,668
Unobligated Balances:	ψ	1,090,004	ψ	7,702,004	ψ	9,400,000
Apportioned (Note 27)		726,589		1,917,637		2,644,226
Exempt from Apportionment		0		0		0
Unobligated Balances Not Available (Note 27)		24,405	_	127,611		152,016
Total Status of Budgetary Resources	\$	2,448,998	\$	9,807,912	\$	12,256,910
Relationship of Obligations to Outlays	_		_			
Obligations Incurred, Net	\$	1,290,817	\$	7,296,359	\$	8,587,176
Obligated Balances, Net - Beginning of Period	Ψ	2,108,696	Ψ	9,324,855	Ψ	11,433,551
Accounts Receivable		3,694		72,577		76,271
Unfilled Customer Orders from Federal Sources		66,448		253,348		319,796
Undelivered Orders, Unpaid		(1,831,268)		(9,277,925)		(11,109,193)
Accounts Payable		(260,633)	_	(656,652)		(917,285)
Total Outlays (Note 25)	\$	1,377,754	\$	7,012,562	\$	8,390,316
Disbursements	\$	1,549,041	\$	7,323,740	\$	8,872,781
Collections	·	(171,287)		(311,178)		(482,465)
Less: Offsetting Receipts (Note 28)	_	(248,252)	_	(687,650)		(935,902)
Net Outlays	\$	1,129,502	\$	6,324,912	\$	7,454,414

The accompanying notes are an integral part of these statements.

ENVIRONMENTAL PROTECTION AGENCY CONSOLIDATING STATEMENT OF FINANCING FOR THE YEAR ENDED SEPTEMBER 30, 2002

(Dollars in Thousands)

		Superfund Trust Fund FY 2002		All Others FY 2002	(Consolidated Totals* FY 2002
Resources Used to Finance Activities:						
Budgetary Resources Obligated						
Obligations Incurred	\$	1,698,004	\$	7,762,664	\$	9,460,668
Less: Spending Authority from Offsetting						0
Collections and Recoveries		(407, 187)		(466,305)		(873,492)
Obligations, Net of Offsetting Collections	\$	1,290,817	\$	7,296,359	\$	8,587,176
Less: Offsetting Receipts (Note 28)		(248, 252)		(687,650)		(935,902)
Net Obligations	\$	1,042,565	\$	6,608,709	\$	7,651,274
Other Resources						
Transfers In/Out without Reimbursement,						
Property (Note 31)	\$	47	\$	(47)	\$	0
Imputed Financing Sources (Note 32)		14,706		83,039		97,745
Income from Other Appropriations (Note 23)	<u></u>	114,297		(114,297)		0
Net Other Resources Used to Finance Activities	\$	129,050	\$	(31,305)	\$	97,745
Total Resources Used To Finance Activities	\$	1,171,615	\$	6,577,404	\$	7,749,019
Resources Used to Finance Items						
Not Part of Net Cost of Operations						
Change in Budgetary Resources Obligated	\$	64,738	\$	(422,293)	\$	(357,555)
Resources that Fund Prior Period Expenses (Note 29)		(1,590)		(399)		(1,989)
Budgetary Offsetting Collections and Receipts						
that Do Not Affect Net Cost of Operations						
Credit Program Collections Increasing Loan						
Liabilities for Guarantees of Subsidy Allowances		0		4,394		4,394
Offsetting Receipts Not Affecting Net Cost		248,252		11,358		259,610
Resources that Finance Asset Acquisition		(6,587)		(53,692)		(60,279)
Adjustments to Expenditure Transfers						
that Do Not Affect Net Cost		(48,758)	_	48,670		(88)
Total Resources Used to Finance Items Not						
Part of the Net Cost of Operations	\$	256,055	\$	(411,962)	\$	(155,907)
Total Resources Used to Finance the Net						
Cost of Operations	\$	1,427,670	\$	6,165,442	\$	7,593,112

The accompanying notes are an integral part of these statements.

 $^{^{\}ast}$ This statement did not have any intra-agency eliminations for FY 2002.

ENVIRONMENTAL PROTECTION AGENCY CONSOLIDATING STATEMENT OF FINANCING FOR THE YEAR ENDED SEPTEMBER 30, 2002

(Dollars in Thousands)

Components of Net Cost of Operations			FY 2002		FY 2002
Tel. 4 Will N. 4 D					
That Will Not Require or Generate					
Resources in the Current Period					
Components Requiring or Generating Resources in					
Future Periods					
Increase in Annual Leave Liability (Note 29)	\$ 0	\$	0	\$	0
Increase in Environmental and Disposal Liability (Note 29)	0		578		578
Up/Downward Reestimates of Subsidy Expense	0		(371)		(371)
Increase in Public Exchange Revenue Receivable	(305,035)		(2,422)		(307,457)
Increase in Workers Compensation Costs (Note 29)	0		0		0
Total Components of Net Cost of Operations that					
Requires or Generates Resources in the Future	\$ (305,035)	\$	(2,215)	\$	(307,250)
Components Not Requiring/Generating Resources					
Depreciation and Amortization	7,854		27,022		34,876
Revaluation of Assets or Liabilities	0		0		0
Expenses Not Requiring Budgetary Resources	41,426		27,108		68,534
Total Components of Net Cost of Operations					
that Will Not Require or Generate Resources	\$ 49,280	\$	54,130	\$	103,410
Total Components of Net Cost of Operations					
That Will Not Require or Generate					
Resources in the Current Period	 (255,755)	_	51,915	_	(203,840)
Net Cost of Operations	\$ 1,171,915	\$	6,217,357	\$	7,389,272

The accompanying notes are an integral part of these statements.

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 $^{^{\}ast}$ This statement did not have any intra-agency eliminations for FY 2002.

ENVIRONMENTAL PROTECTION AGENCY CONSOLIDATING STATEMENT OF FINANCING

FOR THE YEAR ENDED SEPTEMBER 30, 2002 (Restated *See Notes 36 and 37)

(Dollars in Thousands)

	Superfund Trust Fund FY 2001*	All Others FY 2001	Consolidated Totals FY 2001**
Obligations and Nonbudgetary Resources			
Obligations Incurred	\$ 1,570,056	\$ 7,431,802	\$ 9,001,858
Less: Spending Authority from Offsetting Collections		, , ,	, ,
Earned Reimbursements			
Collected	(311,271)	(227,827)	(539,098)
Receivable from Federal Sources	3,716	6,306	10,022
Change in Unfilled Customer Orders	(41,203)	(36,273)	(77,476)
Transfers from Trust Funds	0	(46,178)	(46,178)
Recoveries of Prior Year Obligations	(196,644)	(76,814)	(273,458)
Imputed Financing for Cost Subsidies (Note 32)	13,686	77,855	91,541
Income from Other Appropriations (Note 23)	103,654	(103,654)	0
Transfers In/Out of Nonmonetary Assets	0	0	0
Exchange Revenue Not in the Entity's Budget (Note 36)	(128,757)	(2,072)	(130,829)
Total Obligations and Nonbudgetary Resources	1,013,237	7,023,145	8,036,382
Resources that Do Not Fund Net Cost of Operations			
Change in Amount of Goods/Services Ordered But			
Not Yet Provided - (Increases)/Decreases	145,931	(117,998)	27,933
Change in Unfilled Customer Orders, etc.	41,203	36,273	77,476
Costs Capitalized on the Balance Sheet			
General Plant, Property, and Equipment (Note 37)	(12,530)	(74,092)	(86,622)
Purchases of Inventory		52	52
Adjustments to Costs Capitalized on the Balance Sheet	(40)	(4)	(44)
Collections that Decrease Credit Program Receivables or			
Increase Program Liabilities	0	7,722	7,722
Adjustment for Trust Fund Outlays that Do Not Affect Net Cost	(47,894)	(587,424)	(635,318)
Total Resources that Do Not Fund Net Costs of Operations	126,670	(735,471)	(608,801)
Components of Costs that Do Not Require or Generate Resources	3		
Depreciation and Amortization (Note 37)	7,091	19,333	26,424
Bad Debt Related to Uncollectible Receivables	133,761	2,881	136,642
Loss (Gain) on Disposition of Assets	(9,426)	895	(8,531)
Other Expenses Not Requiring Budgetary Resources	699	(5,686)	(4,987)
Total Costs That Do Not Require Resources	132,125	17,423	149,548
Financing Sources Yet to be Provided	829	8,234	9,063
Net Costs of Operations (Notes 36 and 37)	\$ 1,272,861	\$ 6,313,331	\$ 7,586,192

The accompanying notes are an integral part of these statements.

^{**} This statement did not have any intra-agency eliminations for FY 2001.

ENVIRONMENTAL PROTECTION AGENCY CONSOLIDATED STATEMENT OF CUSTODIAL ACTIVITY FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

(Dollars in Thousands)

		FY 2002		FY 2001
Revenue Activity:				
Sources of Collections:				
Fines and Penalties	\$	94,237	\$	114,830
Other	_	9,322		31,754
Total Cash Collections	\$	103,559	\$	146,584
Accrual Adjustment		(8,070)		(24,692)
Total Custodial Revenue (Note 24)	\$	95,489	\$	121,892
Disposition of Collections:				
Transferred to Others (General Fund)	\$	103,818	\$	147,045
Increases/Decreases in Amounts To Be Transferred	_	(8,329)		(25,153)
Total Disposition of Collections	\$	95,489	\$	121,892
Net Custodial Revenue Activity (Note 24)	\$	0	\$	0
	=		=	

The accompanying notes are an integral part of these statements.

ENVIRONMENTAL PROTECTION AGENCY NOTES TO FINANCIAL STATEMENTS

(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

These consolidating financial statements have been prepared to report the financial position and results of operations of the Environmental Protection Agency (Agency) for the Hazardous Substance Superfund (Superfund) Trust Fund and All Other Funds, as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The reports have been prepared from the books and records of the Agency in accordance with "Form and Content for Agency Financial Statements," specified by the Office of Management and Budget (OMB) in Bulletin 01-09, and the Agency's accounting policies which are summarized in this note. In addition, to the guidance in Bulletin 01-09, the Statement of Net Cost has been prepared by the EPA strategic goals. These statements are therefore different from the financial reports also prepared by the Agency pursuant to OMB directives that are used to monitor and control the Agency's use of budgetary resources.

B. Reporting Entities

The Environmental Protection Agency was created in 1970 by executive reorganization from various components of other Federal agencies in order to better marshal and coordinate federal pollution control efforts. The Agency is generally organized around the media and substances it regulates—air, water, land, hazardous waste, pesticides, and toxic substances. For FY 2002 the reporting entities are grouped as Hazardous Substance Superfund and All Other Funds.

Hazardous Substance Superfund

In 1980 the Hazardous Substance Superfund, commonly referred to as the Superfund Trust Fund, was established by the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) to provide resources needed to respond to and clean up hazardous substance emergencies and abandoned, uncontrolled hazardous waste sites. The Superfund Trust Fund financing is shared by federal and state governments as well as industry. The Agency allocates funds from its appropriation to other federal agencies to carry out the Act. Risks to public health and the environment at uncontrolled hazardous waste sites qualifying for the Agency's National Priorities List (NPL) are reduced and addressed through a process involving site assessment and analysis and the design and implementation of cleanup remedies. Throughout this process, cleanup activities may be supported by shorter term removal actions to reduce immediate risks. Removal actions may include removing contaminated material from the site, providing an alternative water supply to people living nearby, and installing security measures. NPL cleanups and removals are conducted and financed by the Agency, private parties, or other federal agencies. The Superfund Trust Fund includes the Treasury collections and investment activity. The Superfund Trust Fund is accounted for under Treasury symbol number 8145.

All Other Funds

All Other Funds include other Trust Fund appropriations, General Fund appropriations, Revolving Funds, Special Funds, the Agency Budgetary Clearing accounts, Deposit Funds, General Fund Receipt accounts, the Environmental Services Special Fund Receipt Account, the Miscellaneous Contributed Funds Trust Fund, and General Fund appropriations transferred from other federal agencies as authorized by the Economy Act of 1932. Trust Fund appropriations are the

Leaking Underground Storage Tank (LUST) Trust Fund and the Oil Spill Response Trust Fund. General Fund appropriations are the State and Tribal Assistance Grants (STAG), Science and Technology (S&T), Environmental Programs and Management (EPM), Office of Inspector General (IG), Buildings and Facilities (B&F), and Payment to the Hazardous Substance Superfund. General Fund appropriation activities that no longer receive current definite appropriations but have unexpended authority are the Asbestos Loan Program and Energy, Research and Development. Revolving Funds include the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA) Revolving Fund, and Tolerance Revolving Fund which receive no direct appropriations; however, they do collect fees from public industry as a source of reimbursement for the services provided. In addition to FIFRA and Tolerance, a Working Capital Fund (WCF) was established and designated as a franchise fund to provide computer operations support and postage service for the Agency. A Special Fund was established to collect the Exxon Valdez settlement as a result of the Exxon Valdez oil spill. All Other Funds are as follows:

The LUST Trust Fund was authorized by the Superfund Amendments and Reauthorization Act of 1986 (SARA) as amended by the Omnibus Budget Reconciliation Act of 1990. The LUST appropriation provides funding to respond to releases from leaking underground petroleum tanks. The Agency oversees cleanup and enforcement programs which are implemented by the states. Funds are allocated to the states through cooperative agreements to clean up those sites posing the greatest threat to human health and environment. Funds are used for grants to non-state entities including Indian tribes under section 8001 of the Resource Conservation and Recovery Act. The program is financed by a one cent a gallon tax on motor fuels which will expire in 2005 and is accounted for under Treasury symbol number 8153.

The Oil Spill Response Trust Fund was authorized by the Oil Pollution Act (OPA) of 1990. Monies were appropriated to the Oil Spill Response Trust Fund in 1993. The Agency is responsible for directing, monitoring, and providing technical assistance for major inland oil spill response activities. This involves setting oil prevention and response standards, initiating enforcement actions for compliance with OPA and Spill Prevention Control and Countermeasure requirements, and directing response actions when appropriate. The Agency carries out research to improve response actions to oil spills including research on the use of remediation techniques such as dispersants and bioremediation. Funding of oil spill cleanup actions is provided through the Department of Transportation under the Oil Spill Liability Trust Fund and reimbursable funding from other federal agencies. The Oil Spill Response Trust Fund is accounted for under Treasury symbol number 8221.

The STAG appropriation provides funds for environmental programs and infrastructure assistance including capitalization grants for state revolving funds and performance partnership grants. Environmental programs and infrastructure supported are Clean and Safe Water; Capitalization grants for the Drinking Water State Revolving Funds; Clean Air; Direct grants for Water and Wastewater Infrastructure needs, Partnership grants to meet Health Standards, Protect Watersheds, Decrease Wetland Loss, and Address Agricultural and Urban Runoff and Storm Water; Better Waste Management; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces and Ecosystems; and Reduction of Global and Cross Border Environmental Risks. STAG is accounted for under Treasury symbol 0103.

The S&T appropriation finances salaries; travel; science; technology; research and development activities including laboratory and center supplies; certain operating expenses; grants; contracts; intergovernmental agreements; and purchases of scientific equipment. These activities provide the scientific basis for the Agency's regulatory actions. In FY 2002 Superfund research costs were appropriated in Superfund and transferred to S&T to allow for proper accounting of the costs. Scientific and technological activities for environmental issues include Clean Air; Clean and Safe Water; Americans Right to Know About Their Environment; Better Waste Management; Preventing Pollution

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and Reducing Risk in Communities, Homes, Workplaces, and Ecosystems; and Safe Food. The S&T appropriation is accounted for under Treasury symbol 0107.

The EPM appropriation includes funds for salaries, travel, contracts, grants, and cooperative agreements for pollution abatement, control, and compliance activities and administrative activities of the operating programs. Areas supported from this appropriation include Clean Air; Clean and Safe Water; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces, and Ecosystems; Better Waste Management, Restoration of Contaminated Waste Sites, and Emergency Response; Reduction of Global and Cross Border Environmental Risks; Americans' Right to Know About Their Environment; Sound Science; Improved Understanding of Environmental Risk; and Greater Innovation to Address Environmental Problems; Credible Deterrent to Pollution and Greater Compliance with the Law; and Effective Management. The Environmental Programs and Management appropriation is accounted for under Treasury symbol 0108.

The IG appropriation provides funds for audit and investigative functions to identify and recommend corrective actions on management and administrative deficiencies that create the conditions for existing or potential instances of fraud, waste and mismanagement. Additional funds for audit and investigative activities associated with the Superfund Trust Fund and the LUST Trust Funds are appropriated under those Trust Fund accounts and are transferred to the IG account. The audit function provides contract, internal and performance, and financial and grant audit services. The IG appropriation is accounted for under Treasury symbol 0112 and includes expenses incurred and reimbursed from the appropriated trust funds being accounted for under Treasury symbols 8145 and 8153.

The B&F appropriation provides for the construction, repair, improvement, extension, alteration, and purchase of fixed equipment or facilities that are owned or used by the Agency. The B&F appropriation is accounted for under Treasury symbol 0110.

The Payment to the Hazardous Substance Superfund appropriation authorizes appropriations from the General Fund of the Treasury to finance activities conducted through Hazardous Substance Superfund. Payment to the Hazardous Substance Superfund is accounted for under Treasury symbol 0250.

The Asbestos Loan Program was authorized by the Asbestos School Hazard Abatement Act of 1986 to finance control of asbestos building materials in schools. Funds have not been appropriated for this Program since FY 1993. For FY 1993 and FY 1992 the program was funded by a subsidy appropriated from the General Fund for the actual cost of financing the loans, and by borrowing from Treasury for the unsubsidized portion of the loan. The Program Fund disburses the subsidy to the Financing Fund for increases in the subsidy. The Financing Fund receives the subsidy payment, borrows from Treasury, and collects the asbestos loans. The Asbestos Loan Program is accounted for under Treasury symbol 0118 for the subsidy and administrative support, under Treasury symbol 4322 for loan disbursements, loans receivable and loan collections on post FY 1991 loans, and under Treasury symbol 2917 for pre FY 1992 loans receivable and loan collections.

The FIFRA Revolving Fund was authorized by the Federal Insecticide, Fungicide and Rodenticide Act of 1972 as amended and as amended by the Food Quality Protection Act of 1996. Fees are paid by industry to offset costs of accelerated reregistration, expedited processing of pesticides, and establishing tolerances for pesticide chemicals in or on food and animal feed. The FIFRA Revolving Fund is accounted for under Treasury symbol number 4310.

The Tolerance Revolving Fund was authorized in 1963 for the deposit of tolerance fees. Fees are paid by industry for federal services of pesticide chemicals in or on food and animal feed. Effective January 2, 1997, fees collected are now being collected and deposited in the Reregistration

and Expedited Processing Revolving Fund (4310). The fees collected prior to this date are accounted for under Treasury symbol number 4311.

The WCF includes two activities: computer support services and postage. WCF derives revenue from these activities based upon a fee for services. WCF's customers currently consist solely of Agency program offices. Accordingly, revenues generated by WCF and expenses recorded by the program offices for use of such services, along with the related advances/liabilities, are eliminated on consolidation. The WCF is accounted for under Treasury symbol 4565.

The Exxon Valdez Settlement Fund has funds available to carry out authorized environmental restoration activities. Funding is derived from the collection of reimbursements under the Exxon Valdez settlement as a result of the oil spill. The Exxon Valdez Settlement fund is accounted for under Treasury symbol number 5297.

Allocations and appropriations transferred to the Agency from other federal agencies include funds from the Appalachian Regional Commission and the Department of Commerce which provide economic assistance to state and local developmental activities, the Agency for International Development which provides assistance on environmental matters at international levels, and from the General Services Administration which provides funds for rental of buildings and operations, repairs, and maintenance of rental space. The transfer allocations are accounted for under Treasury symbols 0200, 1010, and 4542; and the appropriation transfers are accounted for under 0108.

Clearing Accounts include the Budgetary suspense account, Unavailable Check Cancellations and Overpayments, and Undistributed IPAC Payments and Collections. Clearing accounts are accounted for under Treasury symbols 3875, 3880, and 3885.

Deposit funds include Fees for Ocean Dumping; Nonconformance Penalties; Clean Air Allowance Auction and Sale; Advances without Orders; and Suspense and payroll deposits for Savings Bonds, and State and City Income Taxes Withheld. Deposit funds are accounted for under Treasury symbols 6050, 6264, 6265, 6266, 6275, and 6500.

General Fund Receipt Accounts include Hazardous Waste Permits; Miscellaneous Fines, Penalties and Forfeitures; General Fund Interest; Interest from Credit Reform Financing Accounts; Fees and Other Charges for Administrative and Professional Services; and Miscellaneous Recoveries and Refunds. General Fund Receipt accounts are accounted for under Treasury symbols 0895, 1099, 1435, 1499, 3200, and 3220.

The Environmental Services Receipt account was established for the deposit of fee receipts associated with environmental programs, including radon measurement proficiency ratings and training, motor vehicle engine certifications, and water pollution permits. Receipts in this special fund will be appropriated to the S&T and EPM appropriations to meet the expenses of the programs that generate the receipts. Environmental Services are unavailable receipts accounted for under Treasury symbol 5295.

The Miscellaneous Contributed Funds Trust Fund includes gifts for pollution control programs that are usually designated for a specific use by the donor and deposits from pesticide registrants to cover the costs of petition hearings when such hearings result in unfavorable decisions to the petitioner. Miscellaneous Contributed Funds Trust Fund is accounted for under Treasury symbol 8741.

The accompanying financial statements include the accounts of all funds described in this note. The expense allocation methodology is a financial statement estimate that presents EPA's programs at full cost. Superfund may charge some costs directly to the fund and charge the remainder of the costs to the All Other Funds in the Agency-wide appropriations. These amounts are presented as

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Expenses from Other Appropriations on the Statement of Net Cost and as Income from Other Appropriations on the Statement of Changes in Net Position and the Statement of Financing.

The Superfund Trust Fund is allocated to general support services costs (such as rent, communications, utilities, mail operations, etc.) that were initially charged to the Agency's S&T and EPM appropriations. During the year, these costs are allocated from the S&T and EPM appropriations to the Superfund Trust Fund based on a ratio of direct labor hours, using budgeted or actual full-time equivalent personnel charged to these appropriations, to the total of all direct labor hours. Agency general support services cost charges to the Superfund Trust Fund may not exceed the ceilings established in the Superfund Trust Fund appropriation. The related general support services costs charged to the Superfund Trust Funds were \$53.5 million for FY 2001 and \$49.1 million for FY 2002.

C. Budgets and Budgetary Accounting

Superfund

Congress adopts an annual appropriation amount to be available until expended for the Superfund Trust Fund. A transfer account for the Superfund Trust Fund has been established for purposes of carrying out the program activities. As the Agency disburses obligated amounts from the transfer account, the Agency draws down monies from the Superfund Trust Fund at Treasury to cover the amounts being disbursed.

All Other Funds

Congress adopts an annual appropriation amount for the LUST Trust Fund and for the Oil Spill Response Trust Fund to remain available until expended. A transfer account for the LUST Trust Fund has been established for purposes of carrying out the program activities. As the Agency disburses obligated amounts from the transfer account, the Agency draws down monies from the LUST Trust Fund at Treasury to cover the amounts being disbursed. The Agency draws down all the appropriated monies from the Treasury's Oil Spill Liability trust fund to the Oil Spill Response Trust Fund when Congress adopts the appropriation amount. Congress adopts an annual appropriation for STAG, Buildings and Facilities, and for Payments to the Hazardous Substance Superfund to be available until expended; adopts annual appropriations for S&T, EPM and for the Office of the Inspector General to be available for two fiscal years. When the appropriations for the General Funds are enacted, Treasury issues a warrant to the respective appropriations. As the Agency disburses obligated amounts, the balance of funds available to the appropriation is reduced at Treasury.

The Asbestos Loan Program is a commercial activity financed by a combination from two sources: one for the long term costs of the loans and another for the remaining non-subsidized portion of the loans. Congress adapted a one year appropriation, available for obligation in the fiscal year for which it was appropriated, to cover the estimated long term cost of the Asbestos loans. The long-term costs are defined as the net present value of the estimated cash flows associated with the loans. The portion of each loan disbursement that did not represent long term cost was financed under a permanent indefinite borrowing authority established with the Treasury. A permanent indefinite appropriation is available to finance the costs of subsidy re-estimates that occur after the year in which the loan was disbursed.

Funding of the FIFRA and the Tolerance Revolving Funds is provided by fees collected from industry to offset costs incurred by the Agency in carrying out these programs. Each year the Agency submits an apportionment request to OMB based on the anticipated collections of industry fees.

Funding of the WCF is provided by fees collected from other Agency appropriations collected to offset costs incurred for providing the Agency administrative support for computer support and postage.

Funds transferred from other Federal agencies are funded by a non expenditure transfer of funds from the other Federal agencies. As the Agency disburses the obligated amounts, the balance of funding available to the appropriation is reduced at Treasury.

Clearing accounts, deposit accounts, and receipt accounts receive no budget. The amounts are recorded to the Clearing and Deposit accounts pending further disposition. Amounts recorded to the Receipt accounts capture amounts receivable to or collected for the General Fund of the U.S. Treasury.

D. Basis of Accounting

Superfund and All Other Funds

Transactions are recorded on an accrual accounting basis and on a budgetary basis (where budgets are issued). Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. All interfund balances and transactions have been eliminated.

E. Revenues and Other Financing Sources

Superfund

The Superfund program receives most of its funding through appropriations that may be used, within specific statutory limits, for operating and capital expenditures (primarily equipment). Additional financing for the Superfund program is obtained through reimbursements from other federal agencies under Inter-Agency Agreements (IAGs), state cost share payments under Superfund State Contracts (SSCs), and settlement proceeds from Potentially Responsible Parties (PRPs), under CERCLA section 122(b)(3), placed in special accounts. Special accounts were previously limited to settlement amounts for future costs; however, beginning in FY 2001 cost recovery amounts received under CERCLA section 122(b)(3) settlements could be placed in special accounts. Cost recovery settlements that are not placed in special accounts continue to be deposited in the Superfund Trust Fund.

All Other Funds

The majority of All Other Funds appropriations receive funding needed to support programs through appropriations, which may be used, within statutory limits, for operating and capital expenditures. Under Credit Reform provisions, the Asbestos Loan Program received funding to support the subsidy cost of loans through appropriations which may be used with statutory limits. The Asbestos Direct Loan Financing fund, an off-budget fund, receives additional funding to support the outstanding loans through collections from the Program fund for the subsidized portion of the loan. The last year Congress provided appropriations to make new loans was 1993. The FIFRA and the Tolerance Revolving Funds receive funding, which is now deposited with the FIFRA Revolving Fund, through fees collected for services provided. The FIFRA Revolving Fund also receives interest on invested funds. The WCF receives revenue through fees collected for services provided to Agency program offices. Such revenue is eliminated with related Agency program expenses on Consolidation. The Exxon Valdez Settlement Fund received funding through reimbursements.

Appropriations are recognized as Other Financing Sources when earned, i.e., when goods and services have been rendered without regard to payment of cash. Other revenues are recognized when earned, i.e., when services have been rendered.

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F. Funds with the Treasury

Superfund and All Other Funds

The Agency does not maintain cash in commercial bank accounts. Cash receipts and disbursements are handled by Treasury. The funds maintained with Treasury are Appropriated Funds, Revolving Funds, and Trust Funds. These funds have balances available to pay current liabilities and finance authorized purchase commitments. (See Note 2)

G. Investments in U.S. Government Securities

All Other Funds

Investments in U.S. Government securities are maintained by Treasury and are reported at amortized cost net of unamortized discounts. Discounts are amortized over the term of the investments and reported as interest income. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity. (See Note 4)

H. Notes Receivable

Superfund

The Agency records notes receivable at their face value and any accrued interest as of the date of receipt. (See Note 6)

I. Marketable Equity Securities

The Agency records marketable securities at cost as of the date of receipt. Marketable securities are held by Treasury and reported at their cost value in the financial statements until sold. Currently EPA does not hold any marketable securities.

J. Accounts Receivable and Interest Receivable (See Note 5)

Superfund

The Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) as amended by the Superfund Amendments and Reauthorization Act (SARA) provides for the recovery of costs from potentially responsible parties (PRPs). However, cost recovery expenditures are expensed when incurred since there is no assurance that these funds will be recovered.

It is the Agency's policy to record accounts receivable from PRPs for Superfund site response costs when a consent decree, judgment, administrative order, or settlement is entered. These agreements are generally negotiated after site response costs have been incurred. It is the Agency's position that until a consent decree or other form of settlement is obtained, the amount recoverable should not be recorded.

The Agency also records accounts receivable from states for a percentage of Superfund site remedial action costs incurred by the Agency within those states. As agreed to under Superfund State Contracts (SSCs), cost sharing arrangements under SSCs may vary according to whether a site was privately or publicly operated at the time of hazardous substance disposal and whether the Agency response action was removal or remedial. SSC agreements are usually for 10% or 50% of site remedial action costs. States may pay the full amount of their share in advance or incrementally throughout the remedial action process. Allowances for uncollectible state cost share receivables have not been recorded because the Agency has not had collection problems with these agreements.

All Other Funds

The majority of receivables for All Other Funds represent interest receivable for Asbestos and FIFRA and both accounts receivable and interest receivable to the General Fund of the Treasury.

K. Advances and Prepayments

Superfund and All Other Funds

Advances and prepayments represent funds advanced or prepaid to other entities both internal and external to the Agency for which a budgetary expenditure has not yet occurred. (See Note 6)

L. Loans Receivable

All Other Funds

Loans are accounted for as receivables after funds have been disbursed. The amount of Asbestos Loan Program loans obligated but not disbursed is disclosed in Note 7. Loans receivable resulting from obligations on or before September 30, 1991, are reduced by the allowance for uncollectible loans. Loans receivable resulting from loans obligated on or after October 1, 1991, are reduced by an allowance equal to the present value of the subsidy costs associated with these loans. The subsidy cost is calculated based on the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries offset by fees collected, and other estimated cash flows associated with these loans.

M. Appropriated Amounts Held by Treasury

Superfund and All Other Funds

For the Superfund and LUST Trust Funds, and for amounts appropriated to the Office of Inspector General from the Superfund and LUST Trust Funds, cash available to the Agency that is not needed immediately for current disbursements remains in the respective Trust Funds managed by Treasury. (See Note 17)

N. Property, Plant, and Equipment

Superfund and All Other Funds

The Fixed Assets Subsystem (FAS), implemented in FY 1997, maintains EPA's personal property, real property, and capital software records in accordance with Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant and Equipment," (SFFAS No. 6). The FAS automatically generates depreciation entries monthly based on acquisition dates. Purchases of EPA-held and contractor-held personal property are capitalized if valued at \$25 thousand or more with an estimated useful life of at least two years. Prior to implementing FAS, depreciation was taken on a modified straight-line basis over a period of six years, depreciating 10% the first and sixth year and 20% in years two through five. This modified straight-line method is still used for contractor-held property. All EPA-held personal property purchased before the implementation of FAS was assumed to have an estimated useful life of five years. New acquisitions of EPA-held personal property are depreciated using the straight-line method for specific assets with useful lives ranging from two to 15 years.

Superfund contractor-held property used as part of the remedy for site-specific response actions is capitalized in accordance with Agency's capitalization threshold. This property is part of the remedy at the site and eventually becomes part of the site itself. Once the response action has been completed and the remedy implemented, EPA will retain control of the property, e.g., pump and treat facility, for

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10 years or less, and will transfer its interest in the facility to the respective state for mandatory operation and maintenance – usually 20 years or more. Consistent with EPA's 10 year retention period, depreciation for this property will be based on a 10-year life. However, if any property is transferred to a state in a year or less, this property will be charged to expense. If any property is sold prior to EPA relinquishing interest, the proceeds from the sale of that property shall be applied against contract payments or refunded as required by the Federal Acquisition Regulations.

In FY 1997 the EPA's Working Capital Fund, a revenue generating activity, implemented requirements to capitalize software if the purchase price was \$100,000 or more with an estimated useful life of two years or more. In FY 2001 the Agency began capitalizing software for All Other Funds whose acquisition value is \$500,000 or more in accordance with the provisions of SFFAS No. 10, "Accounting for Internal Use Software." Software is depreciated using the straight-line method over the specific assets' useful lives ranging from two to ten years.

Real property consists of land, buildings, and capital and leasehold improvements. Real property, other than land, is capitalized when the value is \$75 thousand or more. Land is capitalized regardless of cost. Buildings were valued at an estimated original cost basis and land was valued at fair market value if purchased prior to FY 1997. Real property purchased during and after FY 1997 are valued at actual costs. Depreciation for real property is calculated using the straight-line method over the specific assets' useful lives ranging from 10 to 102 years. Leasehold improvements are amortized over the lesser of their useful lives or the unexpired lease terms. Additions to property and improvements not meeting the capitalization criteria, expenditures for minor alterations, and repairs and maintenance are expensed as incurred. (See Note 9)

O. Liabilities

Superfund and All Other Funds

Liabilities represent the amount of monies or other resources that are likely to be paid by the Agency as the result of a transaction or event that has already occurred. However, no liability can be paid by the Agency without an appropriation or other collection of revenue for services provided. Liabilities for which an appropriation has not been enacted are classified as unfunded liabilities and there is no certainty that the appropriations will be enacted. Liabilities of the Agency, arising from other than contracts, can be abrogated by the Government acting in its sovereign capacity.

P. Borrowing Payable to the Treasury

All Other Funds

Borrowing payable to Treasury results from loans from Treasury to fund the Asbestos direct loans described in part B and C of this note. Periodic principal payments are made to Treasury based on the collections of loans receivable.

Q. Interest Payable to Treasury

All Other Funds

The Asbestos Loan Program makes periodic interest payments to Treasury based on its debt to Treasury. At the end of FY 2001 and FY 2002 there was no outstanding interest payable to Treasury since payment was made through September 30.

R. Accrued Unfunded Annual Leave

Superfund and All Other Funds

Annual, sick, and other leave is expensed as taken during the fiscal year. Sick leave earned but not taken is not accrued as a liability. Annual leave earned but not taken as of the end of the fiscal year is accrued as an unfunded liability. Accrued unfunded annual leave is included in the Balance Sheet as a component of "Payroll and Benefits Payable." (See Note 33)

S. Retirement Plan

Superfund and All Other Funds

There are two primary retirement systems for federal employees. Employees hired prior to January 1, 1984, may participate in the Civil Service Retirement System (CSRS). On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Agency automatically contributes 1 percent of pay and matches any employee contributions up to an additional 4 percent of pay. The Agency also contributes the employer's matching share for Social Security.

With the issuance of SFFAS No.5, "Accounting for Liabilities of the Federal Government," (SFFAS No. 5), which was effective for the FY 1997 financial statements, accounting and reporting standards were established for liabilities relating to the federal employee benefit programs (Retirement, Health Benefits, and Life Insurance). SFFAS No. 5 requires that the employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS No. 5 requires that the Office of Personnel Management, as administrator of the Civil Service Retirement and Federal Employees Retirement Systems, the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program, provide EPA with the 'Cost Factors' to compute EPA's liability for each program.

T. Prior Period Adjustments

Prior period adjustments will be made in accordance with SFFAS No. 21, "Reporting Corrections of Errors and Changes in Accounting Principles," which is effective for FY 2002. EPA will make prior period adjustments for material errors as follows in accordance with SFFAS No. 21. Prior period adjustments will only be made for material prior period errors to (1) the current period financial statements and (2) the prior period financial statements presented for comparison. Adjustments related to changes in accounting principles will only be made to the current period financial statements, but not to prior period financial statements presented for comparison. (See Notes 36 and 37)

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Note 2. Fund Balances with Treasury

Fund Balances with Treasury as of September 30, 2002 and 2001, consist of the following (in thousands):

	I	FY 2002			_]	FY 2001		
•		on-Entity Assets		Total		Entity Assets	No	on-Entity Assets		Total
\$ 32.229	\$	0	\$	32,229	\$	6,706	\$	0	\$	6,706
16,405		0		16,405		18,158		0		18,158
3,796		0		3,796		3,156		0		3,165
3,028		0		3,028		3,496		0		3,496
57,380		0		57,380		51,267		0		51,267
11,504,638		0	1	1,504,638	13	1,088,824		0		11,088,824
99,575	_	4,112	_	103,687	_	88,218	_	19,246		107,464
\$ 11,717,051	\$	4,112	\$ 1	1,721,163	13	1,259,834	\$	19,246	\$	11,279,080
	\$ 32.229 16,405 3,796 3,028 57,380 11,504,638 99,575	### Entity Assets \$ 32.229 \$ 16,405	\$ 32.229 \$ 0 16,405 0 3,796 0 3,028 0 57,380 0 11,504,638 0 99,575 4,112	Entity Assets Non-Entity Assets \$ 32.229 0 \$ 16,405 0 \$ 3,796 0 \$ 3,028 0 57,380 0 11,504,638 0 1 <t< td=""><td>Entity Assets Non-Entity Assets Total \$ 32.229 0 \$ 32,229 16,405 0 16,405 3,796 0 3,796 3,028 0 3,028 57,380 0 57,380 11,504,638 0 11,504,638 99,575 4,112 103,687</td><td>Entity Assets Non-Entity Assets Total \$ 32.229 \$ 0 \$ 32,229 \$ 16,405 0 16,405 3,796 0 3,796 \$ 3,028 0 3,028 57,380 0 57,380 0 57,380 \$ 11,504,638 0 4,112 103,687 0 11,504,638 113</td><td>Entity Assets Non-Entity Assets Total Entity Assets \$ 32.229 0 \$ 32,229 \$ 6,706 16,405 0 16,405 18,158 3,796 0 3,796 3,156 3,028 0 3,028 3,496 57,380 0 57,380 51,267 11,504,638 0 11,504,638 11,088,824 99,575 4,112 103,687 88,218</td><td>Entity Assets Non-Entity Assets Entity Total Non-Entity Assets \$ 32.229 0 \$ 32,229 \$ 6,706 \$ 16,405 \$ 18,158 \$ 3,796 0 3,796 3,156 \$ 3,028 3,496 \$ 57,380 0 57,380 51,267 \$ 11,504,638 11,088,824 \$ 99,575 \$ 4,112 103,687 88,218</td><td>Entity Assets Non-Entity Assets Total Entity Assets Non-Entity Assets \$ 32.229 \$ 0 \$ 32,229 \$ 6,706 \$ 0 \$ 16,405 0 \$ 16,405 \$ 18,158 0 \$ 3,796 0 \$ 3,796 \$ 3,156 0 \$ 3,028 0 \$ 3,028 \$ 3,496 0 \$ 57,380 0 \$ 57,380 \$ 51,267 0 \$ 11,504,638 0 \$ 11,504,638 \$ 11,088,824 0 \$ 99,575 4,112 \$ 103,687 \$ 88,218 \$ 19,246</td><td>Entity Assets Non-Entity Assets Total Entity Assets Non-Entity Assets \$ 32.229 \$ 0 \$ 32,229 \$ 6,706 \$ 0 \$ 16,405 \$ 0 \$ 16,405 \$ 18,158 \$ 0 \$ 0 \$ 3,796 \$ 0 \$ 3,796 \$ 0 \$ 3,796 \$ 0 \$ 3,796 \$ 0 <t< td=""></t<></td></t<>	Entity Assets Non-Entity Assets Total \$ 32.229 0 \$ 32,229 16,405 0 16,405 3,796 0 3,796 3,028 0 3,028 57,380 0 57,380 11,504,638 0 11,504,638 99,575 4,112 103,687	Entity Assets Non-Entity Assets Total \$ 32.229 \$ 0 \$ 32,229 \$ 16,405 0 16,405 3,796 0 3,796 \$ 3,028 0 3,028 57,380 0 57,380 0 57,380 \$ 11,504,638 0 4,112 103,687 0 11,504,638 113	Entity Assets Non-Entity Assets Total Entity Assets \$ 32.229 0 \$ 32,229 \$ 6,706 16,405 0 16,405 18,158 3,796 0 3,796 3,156 3,028 0 3,028 3,496 57,380 0 57,380 51,267 11,504,638 0 11,504,638 11,088,824 99,575 4,112 103,687 88,218	Entity Assets Non-Entity Assets Entity Total Non-Entity Assets \$ 32.229 0 \$ 32,229 \$ 6,706 \$ 16,405 \$ 18,158 \$ 3,796 0 3,796 3,156 \$ 3,028 3,496 \$ 57,380 0 57,380 51,267 \$ 11,504,638 11,088,824 \$ 99,575 \$ 4,112 103,687 88,218	Entity Assets Non-Entity Assets Total Entity Assets Non-Entity Assets \$ 32.229 \$ 0 \$ 32,229 \$ 6,706 \$ 0 \$ 16,405 0 \$ 16,405 \$ 18,158 0 \$ 3,796 0 \$ 3,796 \$ 3,156 0 \$ 3,028 0 \$ 3,028 \$ 3,496 0 \$ 57,380 0 \$ 57,380 \$ 51,267 0 \$ 11,504,638 0 \$ 11,504,638 \$ 11,088,824 0 \$ 99,575 4,112 \$ 103,687 \$ 88,218 \$ 19,246	Entity Assets Non-Entity Assets Total Entity Assets Non-Entity Assets \$ 32.229 \$ 0 \$ 32,229 \$ 6,706 \$ 0 \$ 16,405 \$ 0 \$ 16,405 \$ 18,158 \$ 0 \$ 0 \$ 3,796 \$ 0 \$ 3,796 \$ 0 \$ 3,796 \$ 0 \$ 3,796 \$ 0 <t< td=""></t<>

Entity fund balances include balances that are available to pay current liabilities and to finance authorized purchase commitments. Also, Entity Assets, Other Fund Types consist of the Environmental Services Receipt account is a special fund receipt account. Upon Congress appropriating the funds, EPA will use the receipts in the S&T and the EPM appropriations.

The non-entity Other Fund Type consist of clearing accounts and deposit funds. These funds are awaiting documentation for the determination of proper accounting disposition.

For FY 2002 the amounts on the financial statements are \$2,828 thousand less than the balances on Treasury's records. These differences consist mainly of unrecorded transactions from the last two months of FY 2002 that will be recorded by the agency early in FY 2003. The differences for Superfund and All Other Funds are \$1,301 thousand and \$1,527 thousand, respectively.

Note 3. Cash

In All Others, as of September 30, 2002, Cash consisted of imprest funds totaling \$10 thousand.

Note 4. Investments

As of September 30, 2002 and 2001, investments consisted of the following:

			Unamortized (Premium)	Interest	Investments,	Market
		Cost	Discount	Receivable	Net	Value
SUPERFUND						
Intragovernmental Securities:						
Non-Marketable	FY 2002	\$ 3,234,352	\$ (62,650)	\$ 12,973	\$ 3,309,975	\$ 3,309,975
	FY 2001	\$_3,630,186	\$ (33,967)	\$59,891	\$_3,724,044	\$ 3,724,044
ALL OTHERS						
Intragovernmental Securities:						
Non-marketable	FY 2002	\$ 1,892,769	\$ (36,752)	\$ 22,531	\$_1,952,052	\$ 1,952,052
	FY 2001	\$ 1,703,909	\$ (52,551)	\$ 22,358	\$ 1,778,818	\$ 1,778,818

CERCLA, as amended by SARA, authorizes EPA to recover monies to clean up Superfund sites from responsible parties (RP). Some RPs file for bankruptcy under Title 11 of the U.S. Code. In bankruptcy settlements, EPA is an unsecured creditor and is entitled to receive a percentage of the assets remaining after secured creditors have been satisfied. Some RPs satisfy their debts by issuing securities of the reorganized company. The Agency does not intend to exercise ownership rights to these securities and instead will convert these securities to cash as soon as practicable.

Note 5. Accounts Receivable

The Accounts Receivable for September 30, 2002 and 2001, consist of the following:

	-	FY	2002	2	FY	200	1
		Superfund		All Others	Superfund		All Others
Intragovernmental Assets:							
Accounts & Interest Receivable	\$ -	33,309	\$ <u>_</u>	72,298	\$ 31,178	\$_	69,977
Total	\$	33,309	\$ _	72,298	\$ 31,178	\$ _	69,977
Non-Federal Assets:							
Unbilled Accounts Receivable	\$	87,443	\$	2,210	\$ 86,470	\$	1,668
Accounts & Interest Receivable		783,279		101,392	949,566		133,787
Less: Allowance for Uncollectibles	_	(459,285)	_	(54,204)	(569,998)	_	(60,428)
Total	\$	411,437	\$ _	49,398	\$ 466,038	\$ _	75,027

The Allowance for Doubtful Accounts is determined on a specific identification basis as a result of a case-by-case review of receivables and a reserve on a percentage basis for those not specifically identified.

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Note 6. Other Assets

For FY 2002 inventory and operating materials and supplies were included in Other Nonfederal Assets. In FY 2001 these items were originally reported on a separate line.

Other Assets for September 30, 2002, consist of the following:

	uperfund rust Fund	All Others		Combined Totals
Intragovernmental Assets:				
Advances to Federal Agencies	\$ 141	\$ 4,163	\$	4,304
Advances to Working Capital Fund	4,379	0		4,379
Advances for Postage	 0	 415		415
Total Intragovernmental Assets	\$ 4,520	\$ 4,578	\$	9,098
Nonfederal Assets:				
Travel Advances	\$ (13)	\$ (911)	\$	(924)
Letter of Credit Advances	0	2,388		2,388
Grant Advances	0	3,054		3,054
Other Advances	793	148		941
Operating Materials and Supplies	0	216		216
Inventory for Sale	 0	 42	_	42
Total Nonfederal Assets	\$ 780	\$ 4,937	\$	5,717

Other Assets for September 30, 2001, consist of the following:

	Superfund Trust Fund		All Others	Combined Totals	
Intragovernmental Assets:					
Advances to Federal Agencies	\$	166	\$ 4,265	\$ 4,431	
Advances to Working Capital Fund		5,355	0	5,355	
Advances for Postage		0	 121	 121	
Total Intragovernmental Assets	\$	5,521	\$ 4,386	\$ 9,907	
Nonfederal Assets:					
Travel Advances	\$	7	\$ (854)	\$ (847)	
Letter of Credit Advances		0	315	315	
Grant Advances		0	1,322	1,322	
Other Advances		769	92	861	
Bank Card Payments		1	0	1	
Operating Materials and Supplies		0	252	252	
Inventory for Sale		0	1	1	
Bankruptcy Settlement*		8,101	 0	 8,101	
Total Nonfederal Assets	\$	8,878	\$ 1,128	\$ 10,006	

^{*} Bankruptcy Settlement: A promissory note in the amount of \$8.1 million was issued to the Superfund in a bankruptcy settlement by Joy Global, Inc. The note was paid off in FY 2002.

Note 7. Loans Receivable, Net—Nonfederal

Asbestos Loan Program loans disbursed from obligations made prior to FY 1992 are net of an allowance for estimated uncollectible loans, if an allowance was considered necessary. Loans disbursed from obligations made after FY 1991 are governed by the Federal Credit Reform Act. The Act mandates that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, anticipated delinquencies, and defaults) associated with direct loans be recognized as an expense in the year the loan is made. The net present value of loans is the amount of the gross loan receivable less the present value of the subsidy.

An analysis of loans receivable and the nature and amounts of the subsidy and administrative expenses associated entirely with Asbestos Loan Program loans as of September 30, 2002 and 2001, is provided in the following sections.

			FY 2002	2				1	Y 2001		
		Loans Receivable, Gross	Allowance*	ŧ	Value of Assets Related to Direct Loans		Loans Receivable, Gross		Allowance*	1	Value of Assets Related to Direct Loans
Direct Loans Obligated Prior to FY 1992	\$	41,181	\$ 0	\$	41,181	\$	49,683	\$	0	\$	49,683
Direct Loans Obligated After FY 1991	_	38,664	(15,199)		23,465	_	42,779		(16,910)		25,869
Total	\$	79,845	\$ (15,199)	\$	64,646	\$	92,462	\$	(16,910)	\$	75,552

^{*} Allowance for Pre-Credit Reform loans (Prior to FY 1992) is the Allowance for Estimated Uncollectible Loans and the Allowance for Post Credit Reform Loans (After FY 1991) is the Allowance for Subsidy Cost (present value).

Subsidy Expenses for Post Credit Reform Loans:

	Interest Differential		Expected Defaults	Fee Offsets	Total
Direct Loan Subsidy Expense - FY 2002	\$ 115	\$	157	\$ 0	\$ 272
Downward Subsidy Reestimate - FY 2002	\$ (496)	\$_	(816)	\$ 0	\$ (1,312)
FY 2002 Totals	\$ (381)	\$	(659)	\$ 0	\$ (1,040)
Direct Loan Subsidy Expense - FY 2001	\$ 1,227	\$	2,353	0	\$ 3,580

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Note 8. Accounts Payable and Accrued Liabilities

The Accounts Payable and Accrued Liabilities, both federal and nonfederal, are current liabilities consisting of the following amounts as of September 30, 2002:

Federal:	Superfund Trust Fund		All Other Funds		Combined Total
Accounts Payable to Other Federal Agencies	\$ 4,964	\$	620	\$	5,584
pility for Allocation Transfers	20,017				20,017
nditure Transfers Payable to other EPA Funds	45,701				45,701
ued Liabilities, Federal	45,577	_	43,363		88,920
Federal Accounts Payable & Accrued bilities	\$ 116,239	\$ =	43,983	\$	160,222
ederal:					
nts Payable, nonfederal	\$ 43,344	\$	74,260	\$	117,604
ces Payable, nonfederal	14		3		17
est Payable	333		1		334
t Liabilities	14,590		348,474		363,064
Accrued Liabilities, nonfederal	87,524	_	88,498	_	176,022
nonfederal Accounts Payable & Accrued bilities	\$ 145,805	\$ =	511,236	\$	657,041

The Accounts Payable and Accrued Liabilities, both federal and nonfederal, consisted of the following amounts as of September 30, 2001:

Federal:	Superfund Trust Fund		All Other Funds		Combined Total
Accounts Payable to other Federal Agencies	\$ 759	\$	1,118	\$	1,877
Liability for Allocation Transfers	20,163				20,163
xpenditure Transfers Payable to other EPA Funds	44,887				44,887
ccrued Liabilities, Federal	57,728	_	40,541		98,269
Total Federal Accounts Payable & Accrued Liabilities	\$ <u>123,537</u>	\$ =	41,659	<u>\$</u>	165,196
nfederal:					
ccounts Payable, nonfederal	\$ 39,746	\$	91,050	\$	130,796
vances Payable, nonfederal	5		33		38
nterest Payable	126				126
Frant Liabilities	16,921		476,749		493,670
Other Accrued Liabilities, nonfederal	80,937	_	87,442	_	168,379
Total Nonfederal Accounts Payable & Accrued	\$ 137,735	\$_	655,274	\$	793,009
Liabilities		_			-1

Note 9. General Plant, Property, and Equipment

Superfund property, plant and equipment, consists of personal property items held by contractors and the Agency. EPA also has property funded by various other Agency appropriations. The property funded by these appropriations are presented in the aggregate under "All Others" and consists of software; real, EPA-Held and Contractor-Held personal, and capitalized-leased property.

As of September 30, 2002, Plant, Property, and Equipment consisted of the following:

	_		Superfun		_	All Others						
EPA-Held Equipment	Acquisition Value			Accumulated Depreciation		Net Book Value	Acquisition Value			ccumulated epreciation		Net Book Value
	\$	25,968	\$	(15,245)	\$	10,723	\$	148,693	\$	(92,920)	\$	55,773
Software		961		(85)		876		26,358		(2,520)		23,838
Contractor-Held Property:												
Superfund Site-Specific		32,472		(12,065)		20,407		0		0		0
General		10,407		(3,667)		6,740		18,412		(9,689)		8,723
Land and Buildings		0		0		0		521,515		(85,238)		436,277
Capital Leases		0		0	_	0	_	41,614		(14,889)	_	26,725
Total	\$	69,808	\$	(31,062)	\$	38,746	\$_	756,592	\$	(205,256)	\$	551,336

As of September 30, 2001, Plant, Property, and Equipment consisted of the following (as restated; see Note 37):

			Superfun	d			All Others							
	Acquisition Value	Accumulated Depreciation			Net Book Value	Acquisition Value		Accumulated Depreciation		Net Book Value				
EPA-Held Equipment	\$ 23,832	\$	(15,031)	\$	8,801	\$	161,253	\$ (105,484)	\$	55,769				
Software	559		(5)		554		10,398	(148)		10,250				
Contractor-Held Property:														
Superfund Site-Specific	32,472		(8,818)		23,654		0	0		0				
General	9,447		(2,287)		7,160		16,752	(7,647)		9,105				
Land and Buildings	0		0		0		500,854	(76,951)		423,903				
Capital Leases	0	_	0	_	0	_	40,992	(13,126)		27,866				
Total	\$ 66,310	\$_	(26,141)	\$_	40,169	\$_	730,249	\$ (203,356)	\$	526,893				

Note 10. Debt

The Debt consisted of the following as of September 30, 2002 and 2001:

All Others				FY 2002			FY 2001						
	В	eginning Balance	B	Net Sorrowing	Ending Balance		Beginning Balance		Net Borrowing		Ending Balance		
Other Debt: Debt to Treasury Classification of Debt:	\$	31,124	\$	(6,834)	\$ 24,290	\$ =	37,922	\$ =	(6,798)	\$	31,124		
Intragovernmental Debt					\$ 24,290					\$	31,124		
Total					\$ 24,290					\$	31,124		

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Note 11. Custodial Liability

Custodial Liability represents the amount of net accounts receivable that, when collected, will be deposited to the General Fund of the Treasury. Included in the custodial liability are amounts for fines and penalties, interest assessments, repayments of loans, and miscellaneous other accounts receivable.

Note 12. Other Liabilities

The Other Liabilities, both intragovernmental and nonfederal, for September 30, 2002, are as follows:

Other Liabilities - Intragovernmental	Budgeta	Covered by ry Resources		Covered by y Resources	Total
Superfund - Current					
Employer Contributions & Payroll Taxes	\$	3,169		0	\$ 3,169
Other Advances		2,470		0	2,470
Advances, HRSTF Cashout		16,618		0	16,618
Deferred HRSTF Cashout		30		0	30
Resources Payable to Treasury		0		0	0
Superfund - Non-Current					
Unfunded FECA Liability		0	_	1,440	 1,440
Total Superfund	\$	22,287	\$	1,440	\$ 23,727
All Other - Current					
Employer Contributions & Payroll Taxes	\$	13,883	\$	0	\$ 13,883
WCF Advances		4,379		0	4,379
Other Advances		1,435		0	1,435
Liability for Deposit Funds		(91)		0	(91)
Resources Payable to Treasury		2		0	2
Subsidy Payable to Treasury		371		0	371
All Other - Non-Current		0		(/00	((00
Unfunded FECA Liability		0		6,402	 6,402
Total All Other	\$	19,979	\$	6,402	\$ 26,381
		Covered by	Not	Covered by	
Other Liabilities - Nonfederal	Budgeta	ry Resources	Budgetar	y Resources	Total
Superfund - Current					
Unearned Advances, Nonfederal	\$	45,515	\$	0	\$ 45,515
Total Superfund	\$	45,515	\$	0	\$ 45,515
All Other - Current					
Unearned Advances, Nonfederal	\$	6,569	\$	0	\$ 6,569
Deferred Credits		0		0	0
Liability for Deposit Funds, Nonfederal		4,181		0	4,181
All Other - Non-Current				- /	- / -
Capital Lease Liability		0		36,729	 36,729
Total All Other	\$	10,750	\$	36,729	\$ 47,479

The Other Liabilities, both intragovernmental and nonfederal, for September 30, 2001, are as follows:

Other Liabilities - Intragovernmental	Budgetar	Covered by ry Resources		Covered by y Resources		Total
Superfund - Current						
Employer Contributions & Payroll Taxes	\$	2,682	\$	0	\$	2,682
Other Advances		1,045		0		1,045
Advances, HRSTF Cashout		15,208		0		15,208
Deferred HRSTF Cashout		947		0		947
Resources Payable to Treasury		0		0		0
Superfund - Non-Current						
Unfunded FECA Liability		0	_	1,426		1,426
Total Superfund	\$	19,882	\$ =	1,426	\$	21,308
All Other - Current						
Employer Contributions & Payroll Taxes	\$	11,935	\$	0	\$	11,935
WCF Advances		5,355		0		5,355
Other Advances		2,646		0		2,646
Liability for Deposit Funds		(85)		0		(85)
Resources Payable to Treasury		2		0		2
Subsidy Payable to Treasury		1,313		0		1,313
All Other - Non-Current						
Unfunded FECA Liability		0		6,341		6,341
Total All Other	\$	21,166	\$	6,341	\$	27,507
abilities - Nonfederal	· <u></u>	Covered by		Covered by	· <u></u>	Total

Other Liabilities - Nonfederal	Budgeta	Covered by ry Resources	t Covered by ry Resources	Total
Superfund - Current				
Unearned Advances, Nonfederal	\$	27,659	\$ 0	\$ 27,659
Total Superfund	\$	27,659	\$ 0	\$ 27,659
All Other - Current				
Unearned Advances, Nonfederal	\$	4,275	\$ 0	\$ 4,275
Deferred Credits		0	0	0
Liability for Deposit Funds, Nonfederal		19,331		19,331
All Other - Non-Current				
Capital Lease Liability		0	 36,930	 36,930
Total All Other	\$	23,606	\$ 36,930	\$ 60,536

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Note 13. Leases

The Capital Leases as of September 30, 2002 and 2001, consist of the following:

Capital Leases, All Other Funds:

Summary of Assets Under Capital Lease:	FY 2002	FY 2001
Real Property Personal Property	\$ 40,913 701	\$ 40,913 79
Total	\$ 41,614	\$ 40,992
Accumulated Amortization	\$ 14,889	\$ 13,126

EPA has three capital leases for land and buildings housing scientific laboratories and/or computer facilities. All of these leases include a base rental charge and escalator clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics (U.S. Department of Labor). EPA has one capital lease for a Xerox copier that expired in FY 2002 and capital leases for seven shuttle buses terminating in FY 2007. The real property leases terminate in fiscal years 2010, 2013, and 2025. The charges are expended out of the Environmental Programs and Management (EPM) appropriation. The total future minimum lease payments of the capital leases are listed below.

Future Payments Due:	All Othe	
Fiscal Year		
2003	\$	6,439
2004		6,439
2005		6,439
2006		6,439
2007		6,331
After 5 Years		83,605
Total Future Minimum Lease Payments		115,692
Less: Imputed Interest	_	(78,963)
Net Capital Lease Liability	_	36,729
Liability Not Covered by Budgetary Resources (See Note 12)	\$	36,729

Operating Leases:

The General Services Administration (GSA) provides leased real property (land and buildings) as office space for EPA employees. GSA charges a Standard Level Users Charge that approximates the commercial rental rates for similar properties.

EPA has five direct operating leases for land and buildings housing scientific laboratories and/or computer facilities during FY 2002. Most of these leases include a base rental charge and escalator clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics (U.S. Department of Labor). Two of these operating leases expired in FY 2002. Two of these operating leases that were due to expire in FY 2002 were extended: one until FY 2004 and the other on a monthly basis. Two others expire in fiscal years 2017 and 2020. The fifth lease that

expired in FY 2001 was extended until FY 2007. The charges are expended out of the EPM appropriation. The total minimum future costs of operating leases are listed below.

Fiscal Year	Supe	erfund	A	ll Others		otal Land Buildings
2002	\$	0	\$	2,102	\$	2,102
2003		0		74		74
2004		0		74		74
2005		0		74		74
2006		0		74		74
Beyond 2006		0		920	_	920
Total Future Minimum Lease Payments	\$	0	\$	3,318	\$_	3,318

Note 14. Pension and Other Actuarial Liabilities

FFECA provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Annually, EPA is allocated the portion of the long term FECA actuarial liability attributable to the entity. The liability is calculated to estimate the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability amounts and the calculation methodologies are provided by the Department of Labor.

The FECA Actuarial Liability at September 30, 2002 and 2001, consisted of the following:

	 FY 2002			FY 2001			
	Superfund		All Others	i	Superfund		All Other
FECA Actuarial Liability	\$ 7,698	\$	31,759	\$	7,731	\$	31,902

The FY 2002 present value of these estimates was calculated using a discount rate of 5.2 percent. The estimated future costs are recorded as an unfunded liability.

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Note 15. Cashout Advances and Deferrals, Superfund

Cashouts are funds received by EPA, a state, or another Potentially Responsible Party under the terms of a settlement agreement (e.g., consent decree) to finance response action costs at a specified Superfund site. Under CERCLA section 122(b)(3), cashout funds received by EPA are placed in site-specific, interest bearing accounts known as special accounts and are used in accordance with the terms of the settlement agreement. Funds placed in special accounts may be used without further appropriation by Congress.

Note 16. Unexpended Appropriations

As of September 30, 2002 and 2001, the Unexpended Appropriations consisted of the following for All Other Funds:

Unexpended Appropriations:	FY 2002	FY 2001
Unobligated		
Available	\$ 1,725,016	\$ 1,635,071
Unavailable	52,896	64,930
Undelivered Orders	9,145,977	8,658,960
Total	\$ 10,923,889	\$10,358,961

Note 17. Amounts Held by Treasury

Amounts Held by Treasury for Future Appropriations consists of amounts held in trusteeship by the U.S. Department of Treasury in the "Hazardous Substance Superfund Trust Fund" (Superfund) and the "Leaking Underground Storage Tank Trust Fund" (LUST).

Superfund (Audited)

Superfund is supported primarily by an environmental tax on corporations, cost recoveries of funds spent to clean up hazardous waste sites, and fines and penalties. Prior to December 31, 1995, the fund was also supported by other taxes on crude and petroleum and on the sale or use of certain chemicals. The authority to assess those taxes and the environmental tax on corporations also expired on December 31, 1995, and has not been renewed by Congress. It is not known if or when such taxes will be reassessed in the future.

The following reflects the Superfund Trust Fund maintained by the U.S. Department of Treasury as of September 30, 2002 and 2001. The amounts contained in these statements have been provided by the Treasury and are audited. Outlays represent amounts received by EPA's Superfund Trust Fund; such funds are eliminated on consolidation with the Superfund Trust Fund maintained by Treasury.

SUPERFUND FY 2002	EPA	Treasury	Combined
Undistributed Balances			
Available for Investment	\$ 0	\$ 1,876	\$ 1,876
Total Undisbursed Balance	??	??	??
Interest Receivable	0	12,973	12,973
Investments, Net of Discounts	2,762,430	534,572	3,297,002
Total Assets	\$ 2,762,430	\$ 549,421	\$ 3,311,851
Liabilities & Equity			
Equity	\$ 2,762,430	\$ 549,421	\$ 3,311,851
Total Liabilities and Equity	\$ 2,762,430	\$ 549,421	\$ 3,311,851
Receipts			
Corporate Environmental	\$ O	\$ 7,466	\$ 7,466
Cost Recoveries	0	248,252	248,252
Fines & Penalties	0	1,444	1,444
Total Revenue	0	257,162	257,162
Appropriations Received	0	676,292	676,292
Interest Income	0	110,577	110,577
Total Receipts	\$0	\$ 1,044,031	\$ 1,044,031
Outlays			
Transfers to/from EPA, Net	\$ 1,329,490	\$(1,329,490)	\$ O
Transfers to CDC	0	(49,502)	(49,502)
Total Outlays	1,329,490	(1,378,992)	(49,502)
Net Income	<u>\$ 1,329,490</u>	\$ (334,961)	\$994,529

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SUPERFUND FY 2001	EPA	Treasury	Combined
Undistributed Balances			
Available for Investment	\$ 0	\$ 768	\$ 768
Total Undisbursed Balance	??	??	<u>??</u>
Interest Receivable	0	59,891	59,891
Investments, Net of Discounts	2,837,243	826,910	3,664,153
Total Assets	\$ 2,837,243	\$ 887,569	\$ 3,724,812
Liabilities & Equity			
Equity	\$ 2,837,243	\$ 887,569	\$ 3,724,812
Total Liability and Equity	<u>\$ 2,837,243</u>	\$ 887,569	\$ 3,724,812
Receipts			
Petroleum-Imported	\$ 0	\$ 2,471	\$ 2,471
Petroleum-Domestic	0	(12)	(12)
Certain Chemicals	0	32	32
Imported Substances	0	5	5
Corporate Environmental	0	3,861	3,861
Cost Recoveries	0	202,132	202,132
Fines & Penalties	0	2,112	2,112
Total Revenue	0	210,601	210,601
Appropriations Received	0	633,603	633,603
Interest Income	0	220,504	220,504
Total Receipts	0	1,064,708	1,064,708
Outlays			
Transfers to EPA	1,227,360	(1,227,360)	0
Transfers to CDC	0	(74,835)	(74,835)
Total Outlays	1,227,360	(1,302,195)	(74,835)
Net Income	<u>\$ 1,227,360</u>	\$ (237,487)	\$ 989,873

LUST (Audited)

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FY 2002 there were no fund receipts from cost recoveries, and only \$40 thousand in cost recoveries were received in FY 2001. The following represents LUST Trust Fund as maintained by the U.S. Department of Treasury. The amounts contained in these statements have been provided by Treasury and are audited. Outlays represent appropriations received by EPA's LUST Trust Fund; such funds are eliminated on consolidation with the LUST Trust Fund maintained by Treasury.

available for Investment \$ 0 \$ 12,232 \$ 12,232 \$ 12,232 ald Undisbursed Balance 0 12,232 12,232 erest Receivable 0 22,531 22,531 restments, Net of Discounts 80,875 1,848,646 1,929,521 Total Assets \$ 80,875 \$ 1,883,409 \$ 1,964,284 abilities & Equity \$ 80,875 \$ 1,883,409 \$ 1,964,284 accipts Total Liabilities and Equity \$ 80,875 \$ 1,883,409 \$ 1,964,284 accipts Total Liabilities and Equity \$ 80,875 \$ 1,883,409 \$ 1,964,284 accipts Total Liabilities and Equity \$ 80,875 \$ 1,883,409 \$ 1,964,284 accipts \$ 0 \$ 173,351 \$ 173,351 \$ 173,351 \$ 173,351 \$ 173,351 \$ 173,351 \$ 173,351 \$ 173,351 \$ 173,351 \$ 173,351 \$ 173,351 \$ 173,351 \$ 173,351 \$ 173,351 \$ 173,953 \$ 144 \$ 174 \$ 174 \$ 174 \$ 174 \$ 174 \$ 174 \$ 174 \$ 174 \$ 174 <td< th=""><th>LUST FY 2002</th><th>EPA</th><th>Treasury</th><th>Combined</th></td<>	LUST FY 2002	EPA	Treasury	Combined
tal Undisbursed Balance 0 12,232 12,232 12,232 12,232 12,232 12,232 12,232 12,232 12,232 12,232 12,233 122,531 22,531 22,531 22,531 22,531 12,884,646 1,929,521 170tal Assets \$80,875 \$1,848,646 1,929,521 170tal Assets \$80,875 \$1,883,409 \$1,964,284 18 18 18 18 18 18 18 18 18 18 18 18 18	Undistributed Balances			
rerest Receivable 0 22,531 22,531 22,531 restments, Net of Discounts 80,875 1,848,646 1,929,521 Total Assets \$80,875 \$1,883,409 \$1,964,284 subilities & Equity uity \$80,875 \$1,883,409 \$1,964,284 Total Liabilities and Equity \$80,875 \$1,883,409 \$1,964,284 receipts Righway TF Tax	Available for Investment	\$ 0	\$ 12,232	\$ 12,232
restments, Net of Discounts 80,875 1,848,646 1,929,521 Total Assets \$80,875 \$1,883,409 \$1,964,284 ###################################	Total Undisbursed Balance	0	12,232	12,232
Total Assets \$ 80,875 \$ 1,883,409 \$ 1,964,284	Interest Receivable	0	22,531	22,531
Abilities & Equity uity \$80,875 \$1,883,409 \$1,964,284 Total Liabilities and Equity \$80,875 \$1,883,409 \$1,964,284 Execipts dighway TF Tax \$0 \$173,351 \$173,351 cirport TF Tax 0 \$13,199 \$13,199 Inland TF Tax 0 \$474 \$474 Actual Gasoline Tax 0 \$(2,167)	Investments, Net of Discounts	80,875	1,848,646	1,929,521
Second S	Total Assets	\$ 80,875	\$ 1,883,409	\$ 1,964,284
Total Liabilities and Equity \$ 80,875 \$ 1,883,409 \$ 1,964,284	Liabilities & Equity			
Coccipts Sighway TF Tax Sighway TF	Equity	\$ 80,875	\$ 1,883,409	\$ 1,964,284
Section Sect	Total Liabilities and Equity	\$ 80,875	\$ 1,883,409	\$ 1,964,284
13,199	Receipts			
Inland TF Tax 0 474 474 Refund Gasoline Tax 0 (2,167) (2,167) Refund Diesel Tax 0 (3,357) (3,357) Refund Aviation Tax 0 (310) (310) tal Revenue 0 181,190 181,190 erest Income 0 67,563 67,563 Total Receipts 0 248,753 248,753 Intlays 10 10 10 10 Total Outlays 72,912 (72,912) 0 Total Outlays 72,912 (72,912) 0	Highway TF Tax	\$ 0	\$ 173,351	\$ 173,351
Refund Gasoline Tax 0 (2,167) (2,167) Refund Diesel Tax 0 (3,357) (3,357) Refund Aviation Tax 0 (310) (310) Ital Revenue 0 181,190 181,190 Ital Receipts 0 67,563 67,563 Total Receipts 0 248,753 248,753 Intrasfers to/from EPA, Net 72,912 (72,912) 0 Total Outlays 72,912 (72,912) 0	Airport TF Tax	0	13,199	13,199
Refund Diesel Tax 0 (3,357) (3,357) Refund Aviation Tax 0 (310) (310) tal Revenue 0 181,190 181,190 erest Income 0 67,563 67,563 Total Receipts 0 248,753 248,753 atlays transfers to/from EPA, Net 72,912 (72,912) 0 Total Outlays 72,912 (72,912) 0	Inland TF Tax	0	474	474
Refund Aviation Tax 0 (310) (310) tal Revenue 0 181,190 181,190 erest Income 0 67,563 67,563 Total Receipts 0 248,753 248,753 attlays Fransfers to/from EPA, Net 72,912 (72,912) 0 Total Outlays 72,912 (72,912) 0	Refund Gasoline Tax	0	(2,167)	(2,167)
tal Revenue 0 181,190 181,190 erest Income 0 67,563 67,563 Total Receipts 0 248,753 248,753 ertlays eransfers to/from EPA, Net 72,912 (72,912) 0 Total Outlays 72,912 (72,912) 0	Refund Diesel Tax	0	(3,357)	(3,357)
rerest Income 0 67,563 67,563 Total Receipts 0 248,753 248,753 Italys Transfers to/from EPA, Net 72,912 (72,912) 0 Total Outlays 72,912 (72,912) 0	Refund Aviation Tax	0	(310)	(310)
Total Receipts 0 248,753 248,753 Itlays Transfers to/from EPA, Net 72,912 (72,912) 0 Total Outlays 72,912 (72,912) 0	otal Revenue	0	181,190	181,190
Total Outlays 72,912 (72,912) 0 Total Outlays 72,912 (72,912) 0	nterest Income	0	67,563	67,563
Transfers to/from EPA, Net 72,912 (72,912) 0 Total Outlays 72,912 (72,912) 0	Total Receipts	0	248,753	248,753
Total Outlays 72,912 (72,912) 0	Dutlays			
	Transfers to/from EPA, Net	72,912	(72,912)	0
t Income \$ 72,912 \$ 175,841 \$ 248,753	Total Outlays	72,912	(72,912)	0
	Net Income	\$ 72,912	\$ 175,841	\$ 248,753

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Total Undisbursed Balance 0 12,211 12 Interest Receivable 0 22,358 22 Investments, Net of Discounts 83,460 1,673,000 1,756 Total Assets \$83,460 \$1,707,569 \$1,791 Liabilities & Equity \$83,460 \$1,707,569 \$1,791 Total Liability and Equity \$83,460 \$1,707,569 \$1,791 Receipts Highway TF Tax \$0 \$167,408 \$167 Airport TF Tax \$0 \$16,114 \$16 Inland TF Tax \$0 \$834 \$88 Refund Gasoline Tax \$0 \$(834) \$88 Refund Diesel Tax \$0 \$(1,584) \$(1,584) Refund Aviation Tax \$0 \$(123) \$(1 Cost Recovery \$0 \$40 \$(1 Total Revenue \$0 \$94,802 \$94,802	ST FY 2001	EPA	Treasury	Combined
Total Undisbursed Balance 0 12,211 12 Interest Receivable 0 22,358 22 Investments, Net of Discounts 83,460 1,673,000 1,756 Total Assets \$ 83,460 \$ 1,707,569 \$ 1,791 Liabilities & Equity \$ 83,460 \$ 1,707,569 \$ 1,791, Total Liability and Equity \$ 83,460 \$ 1,707,569 \$ 1,791, Receipts **	listributed Balances			
Interest Receivable	ailable for Investment	\$ 0	\$ 12,211	\$ 12,211
Investments, Net of Discounts Total Assets \$ 83,460	l Undisbursed Balance	0	12,211	12,211
Trotal Assets \$83,460 \$1,673,000 \$1,756 Total Assets \$83,460 \$1,707,569 \$1,791 Liabilities & Equity \$83,460 \$1,707,569 \$1,791, Total Liability and Equity \$83,460 \$1,707,569 \$1,791, Total Liability and Equity \$83,460 \$1,707,569 \$1,791, Total Liability and Equity \$83,460 \$1,707,569 \$1,791, Receipts	rest Receivable	0	22,358	22,358
Liabilities & Equity Equity \$ 83,460 \$ 1,707,569 \$ 1,791, Total Liability and Equity \$ 83,460 \$ 1,707,569 \$ 1,791, Receipts Highway TF Tax \$ 0 \$ 167,408 \$ 167, Airport TF Tax 0 16,114 16, Inland TF Tax 0 582 Refund Gasoline Tax 0 (834) (88 Refund Diesel Tax 0 (1,584) (1,584) (1,584) Refund Aviation Tax 0 (19) (0 Refund Aviation Fuel Tax 0 (123) (1 Cost Recovery 0 181,584 181, Interest Income 0 94,802 94, Total Receipts 0 276,386 276,	stments, Net of Discounts	83,460		1,756,460
Equity \$ 83,460 \$ 1,707,569 \$ 1,791, Total Liability and Equity \$ 83,460 \$ 1,707,569 \$ 1,791, Receipts Highway TF Tax \$ 0 \$ 167,408 \$ 167, Airport TF Tax 0 16,114 16, Inland TF Tax 0 582 Refund Gasoline Tax 0 (834) (8 Refund Diesel Tax 0 (1,584) (1,5 Refund Aviation Tax 0 (123) (1 Cost Recovery 0 40 Total Revenue 0 94,802 94, Total Receipts 0 276,386 276,	Total Assets	\$ 83,460	\$ 1,707,569	\$ 1,791,029
Total Liability and Equity \$ 83,460 \$ 1,707,569 \$ 1,791, Receipts Highway TF Tax \$ 0 \$ 167,408 \$ 167, Airport TF Tax 0 16,114 16, Inland TF Tax 0 582 Refund Gasoline Tax 0 (834) (8 Refund Diesel Tax 0 (1,584) (1,5 Refund Aviation Tax 0 (19) (0 Refund Aviation Fuel Tax 0 (123) (1 Cost Recovery 0 40 Total Revenue 0 181,584 181, Interest Income 0 94,802 94, Total Receipts 0 276,386 276,	pilities & Equity			
Receipts Highway TF Tax \$ 0 \$ 167,408 \$ 167, Airport TF Tax 0 16,114 16, Inland TF Tax 0 582 Refund Gasoline Tax 0 (834) (884) (1,584) Refund Diesel Tax 0 (1,584) (1,584) Refund Aviation Tax 0 (19) (123) (1,584) Cost Recovery 0 40 Total Revenue 0 181,584 181, Interest Income 0 94,802 94, Total Receipts 0 276,386 276,	ity	\$ 83,460	<u>\$ 1,707,569</u>	\$ 1,791,029
Highway TF Tax	Total Liability and Equity	<u>\$ 83,460</u>	<u>\$ 1,707,569</u>	<u>\$ 1,791,029</u>
Airport TF Tax 0 16,114 16, Inland TF Tax 0 582 Refund Gasoline Tax 0 (834) (8 Refund Diesel Tax 0 (1,584) (1,5 Refund Aviation Tax 0 (19) 0 Refund Aviation Fuel Tax 0 (123) (1 Cost Recovery 0 40 0 Interest Income 0 181,584 181, Interest Income 0 94,802 94, Total Receipts 0 276,386 276,	eipts			
Inland TF Tax 0 582 Refund Gasoline Tax 0 (834) (8 Refund Diesel Tax 0 (1,584) (1,5 Refund Aviation Tax 0 (19) (1 Refund Aviation Fuel Tax 0 (123) (1 Cost Recovery 0 40 0 Total Revenue 0 181,584 181, Interest Income 0 94,802 94, Total Receipts 0 276,386 276,	ghway TF Tax	\$ 0	\$ 167,408	\$ 167,408
Refund Gasoline Tax 0 (834) (884) Refund Diesel Tax 0 (1,584) (1,584) Refund Aviation Tax 0 (19) (19) Refund Aviation Fuel Tax 0 (123) (1 Cost Recovery 0 40 0 Potal Revenue 0 181,584 181, Interest Income 0 94,802 94, Total Receipts 0 276,386 276,	rport TF Tax	0	16,114	16,114
Refund Diesel Tax 0 (1,584) (1,584) Refund Aviation Tax 0 (19) 0 Refund Aviation Fuel Tax 0 (123) (1 Cost Recovery 0 40 0 Iotal Revenue 0 181,584 181, Interest Income 0 94,802 94, Total Receipts 0 276,386 276,	land TF Tax	0	582	582
Refund Aviation Tax 0 (19) 0 Refund Aviation Fuel Tax 0 (123) (1 Cost Recovery 0 40 0 Total Revenue 0 181,584 181, nterest Income 0 94,802 94, Total Receipts 0 276,386 276,	fund Gasoline Tax	0	(834)	(834)
Refund Aviation Fuel Tax 0 (123) (1 Cost Recovery 0 40 Total Revenue 0 181,584 181, Interest Income 0 94,802 94, Total Receipts 0 276,386 276,	fund Diesel Tax	0	(1,584)	(1,584)
Cost Recovery 0 40 Total Revenue 0 181,584 181, Interest Income 0 94,802 94, Total Receipts 0 276,386 276, Outlays 0 20 20 20	fund Aviation Tax	0	(19)	(19)
Total Revenue 0 181,584 181, Interest Income 0 94,802 94, Total Receipts 0 276,386 276,	fund Aviation Fuel Tax	0	(123)	(123)
Interest Income 0 94,802 94, Total Receipts 0 276,386 276, Outlays Outlays Outlays Outlays	st Recovery	0	40	40
Total Receipts 0 276,386 276,	1 Revenue	0	181,584	181,584
Dutlays	rest Income	0	94,802	94,802
·	Total Receipts	0	276,386	276,386
Transfers to EPA 74,617 (74,617)	lays			
	ansfers to EPA	74,617	(74,617)	0
Total Outlays 74,617 (74,617)	Total Outlays	74,617	(74,617)	0
Net Income \$ 74,617 \$ 201,769 \$ 276,	Income	\$ 74,617	\$ 201,769	\$ 276,386

Note 18. Commitments and Contingencies

EPA may be a party in various administrative proceedings, legal actions, and claims brought by or against it. These include:

- Various personnel actions, suits, or claims brought against the Agency by employees and others.
- Various contract and assistance program claims brought against the Agency by vendors, grantees, and others.
- The legal recovery of Superfund costs incurred for pollution cleanup of specific sites, to include the collection of fines and penalties from responsible parties.
- Claims against recipients for improperly spent assistance funds which may be settled by a reduction of future EPA funding to the grantee or the provision of additional grantee matching funds.

Superfund

Under CERCLA Section 106(a), EPA issues administrative orders that require parties to clean up contaminated sites. CERCLA Section 106(b) allows a party that has complied with such an order to petition EPA for reimbursement from the Fund of its reasonable costs of responding to the order, plus interest. To be eligible for reimbursement, the party must demonstrate either that it was not a liable party under CERCLA Section 107(a) for the response action ordered, or that the Agency's selection of the response action was arbitrary and capricious or otherwise not in accordance with law.

There are currently one CERCLA Section 106(b) administrative claim. If the claimant is successful, the total losses on the administrative and judicial claims could amount to approximately \$17.8 million. The Environmental Appeals Board has not yet issued final decisions on the administrative claim; therefore, a definite estimate of the amount of the contingent loss cannot be made. The claimant's chance of success overall is characterized as reasonably possible.

All Other

There is one material claim which may be considered threatened litigation involving all other appropriated funds of the Agency. If the claimant is successful, the total losses of the claim could amount to \$82.8 million. The claim is currently being evaluated by GSA contracting officials and their private sector claims consultant. The claimant's chance of success overall is characterized as reasonably possible.

Judgement Fund

In cases that are paid by the U.S. Treasury Judgement Fund, the Agency must recognize the full cost of a claim regardless of who is actually paying the claim. Until these claims are settled or a court judgement is assessed and the Judgement Fund is determined to be the appropriate source for the payment, claims that are probable and estimable must be recognized as an expense and liability of the agency. For these cases, at the time of settlement or judgement, the liability will be reduced and an imputed financing source recognized. See Interpretation of Federal Financial Accounting Standards No. 2, Accounting for Treasury Judgement Fund Transactions.

As of September 30, 2002, there are no material claims pending in the Treasury Judgement Fund.

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Note 19. Exchange Revenues, Statement of Net Cost

For FY 2002, the exchange revenues reported on the Statement of Net Cost are separated into Federal and nonfederal portions. Exchange revenues were reported only in total for the FY 2001 Statement of Net Cost. Exchange revenues on the Statement of Net Cost include income from services provided, non-custodial interest revenue (with the exception of interest earned on trust fund investments), and non-custodial miscellaneous earned revenue.

Note 20. Environmental Cleanup Costs

The EPA has one site that requires clean up stemming from its activities. Costs amounting to \$20 thousand may be paid out of the Treasury Judgement Fund. (The \$20 thousand represents the lower end of a range estimate, of which the maximum of the range will total \$200 thousand.) The claimant's chance of success is characterized as probable. EPA also holds title to a site in Edison, New Jersey which was formerly an Army Depot. While EPA did not cause the contamination, the Agency could potentially be liable for a portion of the cleanup costs. However, it is expected that the Department of Defense and GSA will bear all or most of the cost of remediation.

Accrued Cleanup Cost

The EPA has 14 sites that will require future cleanup associated with permanent closure and one site with cleanup presently underway. The estimated costs will be approximately \$13.4 million. Since the cleanup costs associated with permanent closure are not primarily recovered through user fees, EPA has elected to recognize the estimated total cleanup cost as a liability and record changes to the estimate in subsequent years.

The FY 2002 estimate for unfunded cleanup costs increased by \$1 million resulting from a Denver facility move from an existing site to a newly renovated building at the Denver Federal Center. Of the remaining \$13.3 million in estimated cleanup costs, approximately \$6 million represents the estimated expense to close the current RTP facility. These costs will be incurred within the next year. The remaining amount represents the future decontamination and decommissioning costs of EPA's other research facilities. There was a net decrease of approximately \$1.8 million in funded cleanup costs from FY 2001 to FY 2002. EPA could also be potentially liable for cleanup costs, at a GSA-leased site; however, the amounts are not known.

Note 21. Superfund State Credits

Authorizing statutory language for Superfund and related federal regulations require states to enter into Superfund State Contracts (SSCs) when EPA assumes the lead for a remedial action in their state. The SSC defines the state's role in the remedial action and obtains the state's assurance that they will share in the cost of the remedial action. Under Superfund's authorizing statutory language, states will provide EPA with a ten percent cost share for remedial action costs incurred at privately owned or operated sites, and at least fifty percent of all response activities (i.e., removal, remedial planning, remedial action, and enforcement) at publicly operated sites. In some cases, states may use EPA approved credits to reduce all or part of their cost share requirement that would otherwise be borne by the states. Credit is limited to state site-specific expenses EPA has determined to be reasonable, documented, direct out-of-pocket expenditures of nonfederal funds for remedial action. Once EPA has reviewed and approved a state's claim for credit, the state must first apply the credit at the site where it was earned. The state may apply any excess/remaining credit to another site when approved by EPA. As of September 30, 2002, total remaining state credits have been estimated at \$11.2 million. The estimated ending credit balance on September 30, 2001 was \$10.7 million.

Note 22. Superfund Preauthorized Mixed Funding Agreements

Under Superfund preauthorized mixed funding agreements, PRPs agree to perform response actions at their sites with the understanding that EPA will reimburse the PRPs a certain percentage of their total response action costs. EPA's authority to enter into mixed funding agreements is provided under Section 111(a)(2) of the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) of 1980. Under Section 122(b)(1) of CERCLA, as amended by the Superfund Amendments and Reauthorization Act (SARA) of 1986, a PRP may assert a claim against the Superfund Trust Fund for a portion of the costs they incurred while conducting a preauthorized response action agreed to under a mixed funding agreement. As of September 30, 2002, EPA had 15 outstanding preauthorized mixed funding agreements with obligations totaling \$37.4 million. A liability is not recognized for these amounts until all work has been performed by the PRP and has been approved by EPA for payment. Further, EPA will not disburse any funds under these agreements until the PRP's application, claim, and claims adjustment processes have been reviewed and approved by EPA.

Note 23. Income and Expenses from other Appropriations

The Statement of Net Cost reports program costs that include the full costs of the program outputs and consist of the direct costs and all other costs that can be directly traced, assigned on a cause and effect basis, or reasonably allocated to program outputs.

During Fiscal Years 2002 and 2001 EPA had one appropriation which funded a variety of programmatic and non-programmatic activities across the Agency, subject to statutory requirements. The EPM appropriation was created to fund personnel compensation and benefits, travel, procurement, and contract activities.

All of the expenses from EPM were distributed among EPA's two Reporting Entities: Superfund and All Others. This distribution is calculated using a combination of specific identification of expenses to Reporting Entities and a weighted average that distributes expenses proportionately to total programmatic expenses.

As illustrated below, this estimate does not impact the net effect of the Statement of Net Costs.

	 FY 2002				_	FY 2001					
	 Income com Other opriations		Expenses From Other propriations		Net Effect		Income From Other propriations		Expenses From Other Propriations		Net Effect
Superfund	\$ 114,297	\$	(114,297)	\$	0	\$	103,654	\$	(103,654)	\$	0
All Others	(114,297)		114,297		0		(103,654)		103,654		0
Total	\$ 0	\$	0	\$	0	\$	0	\$	0	\$ =	0

Note 24. Custodial Revenues and Accounts Receivable

EPA uses the accrual basis of accounting for the collection of fines, penalties, and miscellaneous receipts. Collectibility by EPA of the fines and penalties is based on the responsible parties' willingness and ability to pay.

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		FY 2002		FY 2001
Fines, Penalties, and Other Misc Revenue (EPA)	\$_	95,489	\$	121,892
Accounts Receivable for Fines, Penalties, and Other Miscellaneous Receipts	_		_	
Accounts Receivable Less: Allowance for Doubtful Accounts	\$	107,779 39,383	\$	123,966 46,186
Total	\$_	68,396	\$_	77,780

Note 25. Statement of Budgetary Resources

Reconciliations of budgetary resources, obligations incurred, and outlays, as presented in the audited Statements of Budgetary Resources, to amounts included in the Budget of the United States Government for the years ended September 30, 2002 and 2001, are as follows:

FY 2002	Budgetary Resources	Obligations Incurred	Outlays
SUPERFUND			
Statement of Budgetary Resources Adjustments to Unliquidated Obligations,	\$ 2,448,998	\$ 1,698,004	\$ 1,377,754
Unfilled Customer Orders, and Other	(17,463)	(17,463)	(1,313)
Budget of the United States Government	\$ 2,431,535	\$ 1,680,541	\$ 1,376,441
ALL OTHER			
Statement of Budgetary Resources Less: Funds Reported by Other Federal Entities Adjustments to Unliquidated Obligations,		\$ 7,762,664 (24,066)	
Unfilled Customer Orders, and Other	0	(622)	(26)
Budget of the United States Government		\$_7,737,976	
	Rudoetarv	Obligations	
FY 2001	Resources	Incurred	Outlays
SUPERFUND			
Statement of Budgetary Resources Adjustments to Unliquidated Obligations,	\$ 2,284,377	\$ 1,570,056	\$ 1,199,748
Unfilled Customer Orders and Other		13,813	
Budget of the United States Government	\$ 2,280,727	\$ 1,583,869	\$ 1,199,748
ALL OTHER			
Statement of Budgetary Resources Less: Funds Reported by Other Federal Entities Adjustments to Unliquidated Obligations,		\$ 7,431,802 (25,677)	
	(26,148)		(25,342)

Note 26. Recoveries and Permanently Not Available, Statement of Budgetary Resources

Details of Recoveries of Prior Year Obligations and Permanently Not Available on the Statement of Budgetary Resources are represented by the following categories:

	FY 2002	FY 2001
SUPERFUND		
Recoveries of Prior Year Obligations Less: Rescinded Authority	\$ 230,628 (2,000)	\$ 196,644 0
Total	\$ 228,628	\$ 196,644
ALL OTHERS		
Recoveries of Prior Year Obligations Adjustments to Beginning Unobligated Balances	\$ 89,440 0	\$ 76,815 0
Less: Payments to Treasury Rescinded Authority Canceled Authority	(6,834) (1,588) (33,870)	(6,798) (15,668) (36,254)
Total	\$ 47,148	\$ 18,095

Note 27. Unobligated Balances Available

Availability of unobligated balances are shown comparatively for FY 2002 and FY 2001. The unexpired authority is available to be apportioned by the Office of Management and Budget for new obligations at the beginning of FY 2003. Expired authority is available for upward adjustments of obligations incurred as of the end of the fiscal year.

	FY 2002	FY 2001
SUPERFUND		
Unexpired Unobligated Balance Authority Available for Apportionment Expired Unobligated Balance	\$ 726,589 24,386 	\$ 714,321 0 0
Total	\$750,994	\$714,321_
ALL OTHERS		
Unexpired Unobligated Balance Authority Available for Apportionment Expired Unobligated Balance	\$ 1,917,637 1,150 126,461	\$ 1,791,475 0 119,829
Total	\$ _2,045,248	\$ 1,911,304

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Note 28. Offsetting Receipts

Distributed offsetting receipts credited to the general fund, special fund or trust fund receipt accounts offset gross outlays. For FY 2002 the following receipts were generated from these activities:

		FY 2002
SUPERFUND		
Trust Fund Recoveries	\$	248,252
Total	\$	248,252
ALL OTHERS		
Special Fund Environmental Service		11,358
Trust Fund Appropriation	_	676,292
Total	\$ =	687,650

Note 29. Statement of Financing

Specific components requiring or generating resources in future periods and resources that fund expenses recognized in prior periods are related to changes in liabilities not covered by budgetary resources. For FY 2002 the following line items are reconciled to the increases or decreases in those liabilities.

	Superfund Trust Fund		All Other Funds		Combined Total
Statement of Financing lines					
Resources that fund expenses recognized in prior periods	\$	(1,590)	\$ (399)	\$	(1,989)
Increases in environmental liabilities		0	578		578
Total	\$	(1,590)	\$ 179	\$	(1,411)
Increases (Decreases) in Liabilities Not Covered by Budgetary Resources and Reconciling Items					
Unfunded Annual Leave Liability	\$	2,206	\$ 5,375	\$	7,581
Unfunded Contingent Liability		(3,778)	(6,000)		(9,778)
Unfunded Workers Compensation Liability		14	61		75
Actuarial Workers Compensation Liability		(32)	(143)		(175)
Subsidy Payable to Treasury		0	(942)		(942)
Unfund Clean-up Costs Liability		0	578		578
Negative subsidy entries		0	616		616
Subsidy re-estimate entries		0	634		634
Total	\$	(1,590)	\$ 179	\$	(1,411)

Note 30. Costs Not Assigned to Goals

FY 2002's Statement of Net Cost by Goal has -\$4.8 million in gross costs not assigned to goals. This amount is comprised of decreases of \$6.0 million in unfunded contingent liabilities and \$2.5 million in bad debt expenses; offset by increases of \$2.0 million interest on borrowing, \$0.6 million in environmental cleanup costs, \$0.6 million in undistributed federal payroll-related costs, and \$0.5 million in other interest costs.

For FY 2001's Statement of Net Cost by Goal, -\$31.5 million in gross costs were not assigned to goals. This amount was comprised of a decrease of \$57.0 million to the year-end grant accruals; partially offset by \$19.7 million in bad debt expense not assigned to goals, \$2.4 million in interest on Treasury borrowing, \$3.1 million in undistributed imputed costs, and \$0.3 million in miscellaneous expenses.

Note 31. Transfers-In and Out, Statement of Changes in Net Position

Appropriation Transfers, In/Out:

For FY 2002 the Appropriation Transfers under Budgetary Financing Sources on the Statement of Changes in Net Position are comprised of nonexpenditure transfers which affect Unexpended Appropriations for non-invested appropriations. These amounts are included in the Budget Authority, Net Transfers and Prior Year Unobligated Balance, Net Transfers lines on the Statement of Budgetary Resources. Detail of the Appropriation Transfers on the Statement of Changes in Net Position and a reconciliation with the Statement of Budgetary Resources follow:

Fund/Type of Account	Superfund	All Other Funds	
GSA Building Fund	\$ 0	\$ 23,948	
EPM (from current year balances)	0	3,750	
EPM (from prior year balances)	0	500	
STAG	0	400	
Total of Appropriation Transfers	\$ O	28,598	
Net Transfers to Invested Funds*	1,329,490	72,912	
Total of Net Transfers on Statement of			
Budgetary Resources	\$ 1,329,490	\$101,510	

^{*} Portion of transfers on Statement of Budgetary Resources that are not part of Appropriation Transfers on Statement of Changes in Net Position

Transfers In/Out Without Reimbursement, Budgetary:

For FY 2002 Transfers In/Out under Budgetary Financing Sources on the Statement of Changes in Net Position are comprised of transfers to or from other federal agencies and between EPA funds. These transfers affect Cumulative Results of Operations. A breakdown of the transfers-in and transfers-out, expenditure and nonexpenditure, follows:

Type of Transfer/Funds		Superfund	All Ot	her Funds
Transfers-in(out), expenditure, Superfund to S&T fund	\$	(36,891)	\$	36,891
Transfers-in(out), expenditure, Superfund to OIG fund		(11,867)		11,867
Transfers-out, nonexpenditure, from Superfund to other Federal agencies		(5,188)		
Transfers-out, nonexpenditure, from Treasury trust fund to CDC		(49,502)		
Transfers-in, nonexpenditure, Oil Spill				15,000
Transfer-in(out) adjustments, canceled funds				(86)
Total Transfers in (out) without Reimbursement, Budgetary	\$	(103,448)		63,672

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Transfers In/Out without Reimbursement, Other Financing Sources:

For FY 2002, Transfers In(Out) without Reimbursement under Other Financing Sources on the Statement of Changes in Net Position are comprised of 1) transfers of property, plant, and equipment between EPA funds and 2) transfers of negative subsidy to a special receipt fund for the credit reform funds. The amounts reported on the Statement of Changes in Net Position are as follows:

Type of Transfer/Fund	Su	perfund	All Ot	her Funds	
Transfer-in(out) of Property, Between Superfund and EPM	\$	47	\$	(47)	
Transfer-out of FY 2002 Negative Subsidy, to be Paid in FY 2003 Adjustment to Transfer-out of FY 2001 Negative Subsidy, Paid out in				(371)	
FY 2002 and Adjusted to Funded Expenses				816	
Total Transfers in(out) Without Reimbursement, Budgetary	\$	47	\$	398	

For FY 2001 the consolidated amounts shown as transfers-in on the Statement of Changes in Net Position are comprised of transfers from other federal agencies in accordance with applicable legislation. The consolidated amounts shown as transfers-out are nonexpenditure transfers to other Hazardous Substance Superfund allocation agency funds, such as HHS and Labor. Elimination transactions consist of intra-agency transfers between EPA funds.

Note 32. Imputed Financing

In accordance with Statement of Federal Financial Accounting Standard No. 5 (Liabilities of the Federal Government), federal agencies must recognize the portion of employees' pensions and other retirement benefits to be paid by the Office of Personnel Management (OPM) trust funds. These amounts are recorded as imputed costs and imputed financing for the agency. Each year the OPM provides federal agencies with cost factors to calculate these imputed costs and financing that apply to the current year. These cost factors are multiplied by the current year's salaries or number of employees, as applicable, to provide an estimate of the imputed financing that the OPM trust funds will provide for each agency. The estimates for FY 2002 were \$14.7 million and \$83.0 million for Superfund and All Other Funds, respectively. For FY 2001 the estimates were \$13.4 million and \$76.5 million for Superfund and All Other Funds, respectively.

In addition to the pension and retirement benefits described above, EPA also records imputed costs and financing for Treasury Judgement Fund payments on behalf of the agency. Entries are made in accordance with the Interpretation of Federal Financial Accounting Standards No. 2, Accounting for Treasury Judgement Fund Transactions. For FY 2002, no Judgement Fund payments were made on EPA's behalf. For FY 2001, entries for Judgement Fund payments totaled \$0.3 million and \$1.3 million for Superfund and All Other Funds, respectively.

Note 33. Payroll and Benefits Payable

The amounts that relate to payroll and benefits payable to EPA employees for the years ending September 30, 2002 and 2001, are detailed in the following tables.

FY 2002 Payroll and Benefits Payables		Covered by Resources		Covered by Resources	Tota	
Superfund - Current						
Accrued Funded Payroll and Benefits	\$	9,146	\$	0	\$	9,146
Withholdings Payable		6,897		0		6,897
Employer Contributions Payable, nonfederal (TSP)		443		0		443
Other Post-employment Benefits Payable		3		0		3
Accrued Unfunded Annual Leave		0		22,647		22,647
Total - Superfund - Current	\$	16,489	\$	22,647	\$	39,136
All Other Funds - Current						
Accrued Funded Payroll and Benefits	\$	41,309	\$	0	\$	41,309
Withholdings Payable		30,233		0		30,233
Employer Contributions Payable, nonfederal (TSP)		1,943		0		1,943
Other Post-employment Benefits Payable		29		0		29
Accrued Funded Leave, WCF		320		0		320
Accrued Unfunded Annual Leave		0		103,598		103,598
Total - All Other Funds - Current	\$	73,834	\$	103,598	\$	177,432
	(Covered by	Not	Covered by		
FY 2001 Payroll and Benefits Payables	Budgetary	Resources	Budgetary	Resources		Total
Superfund - Current						
Accrued Funded Payroll and Benefits	\$	8,361	\$	0	\$	8,361
Withholdings Payable		5,935		0		5,935
Employer Contributions Payable, nonfederal (TSP)		372				372
Other Post-employment Benefits Payable		3		0		3
Accrued Unfunded Annual Leave		0		20,440		20,440
Total - All Other Funds - Current	\$	14,671	\$	20,440	\$	35,111
All Other Funds - Current						
Accrued Funded Payroll and Benefits	\$	37,099	\$	0	\$	37,099
Withholdings Payable	·	26,410		0	,	26,410
Employer Contributions Payable, nonfederal (TSP)		1,645		0		1,645
Other Post-employment Benefits Payable		33		0		33
Accrued Funded Leave, WCF		320		0		320
Accrued Unfunded Annual Leave		0		98,223		98,223
Total - All Other Funds - Current	\$	65,507	\$	98,223	\$	163,730

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Note 34. Other Adjustments, Statement of Changes in Net Position

The Other Adjustments under Budgetary Financing Sources on the Statement of Changes in Net Position are comprised of rescissions to appropriated funds and cancellations of funds that expired on September 30, 1997. These amounts affected Unexpended Appropriations for All Other Funds for FY 2002.

Rescissions to Appropriate Funds Canceled Authority	\$ 1,588 33,872
Total Other Adjustments	\$ 35,460

Note 35. Nonexchange Revenue, Statement of Changes in Net Position

The Nonexchange Revenue, Budgetary Financing Sources on the Statement of Changes in Net Position for FY 2002 is comprised of the following items:

	Superfund Trust Fund	All Other Funds	Combined Total	
Interest on Trust Fund Investments	\$ 110,577	\$ 67,563	\$ 178,140	
Tax Revenue, Net of Refunds	7,466	181,190	188,656	
Fines and Penalties Revenue *	(10,005)	0	(10,005)	
Special Receipt Fund Revenue	0	11,358	11,358	
Total Nonexchange Revenue	\$ 108,038	\$ 260,111	\$ 368,149	

^{*} Fines and penalties revenue included the following negative items: a \$9,664 thousand write-off and \$1,339 thousand allowance for uncollectible accounts.

Note 36. Correction of Error in Revenue, Prior Year, Superfund

In FY 2001 in accordance with agency General Counsel opinions, EPA started placing both past and future cost settlement amounts into site-specific accounts that could be used immediately without a Congressional appropriation. (See also Note 15, Cashout Advances, Superfund.) In that same fiscal year a material error was made in accruing revenue from the cashout advance account. That error resulted in an overstatement of earned revenue of \$53,256 thousand for FY 2001 for Superfund. The applicable statements are restated in accordance with Statement of Federal Financial Standards No. 21, Paragraphs 10 and 11.

The FY 2001 Statements of Changes in Net Position and Financing are restated in the same format as the FY 2001 EPA Audited Financial Statements. Because extensive format changes to these statements were required in FY 2002 by OMB Bulletin No. 01-09, Form and Content of Agency Financial Statements, these statements will not be comparative. The lines affected on the FY 2001 Statement of Financing were "Exchange Revenue not in the Entity's Budget" and "Net Cost of Operations."

The effect of the change on Earned Revenue, Net Cost of Operations, and Net Position, Superfund, for FY 2001 are as follows:

	Amount on FY 2001 Statements	Revenue Restatement Increase/ (Decrease)	Property Restatement (See Note 37) Increase / (Decrease)	Restated Amount
Earned Revenue (applied to Strategic Goal of Better Waste Management)	\$ 488,397	\$ (53,256)	-	\$ 435,141
Net Cost of Operations	1,220,769	53,256	\$ (1,164)	1,272,861
Net Position	3,507,433	(53,256)	23,654	3,477,720

Note 37. Correction of Error in Contractor-held Property, Prior Years, Superfund

Prior to FY 2002 Superfund contractor-held property used on site-specific response actions were charged to expense in the period acquired. While some of this site-specific property was transferred to states for mandatory operation and maintenance, other items were held by EPA for a period in excess of two years. These items should have been capitalized and depreciated in accordance with federal accounting standards for property, plant, and equipment.

The omission of these Superfund site-specific items resulted in material errors in prior years' statements from FY 1996 to FY 2001. In accordance with SFFAS No. 21, "Reporting Corrections of Errors and Changes in Accounting Principles", the FY 2001 statements presented have been restated. The effect on statements for fiscal years prior to FY 2001 is reported as a prior period adjustment increase of \$22,490 thousand to FY 2001's beginning net position. The effect on relevant statement lines for Superfund for the fiscal years 1996 to 2001 are presented below.

The FY 2001 Statements of Changes in Net Position and Financing are restated in the same format as the FY 2001 EPA Audited Financial Statements. Because extensive format changes to these statements were required in FY 2002 by OMB Bulletin No. 01-09, Form and Content of Agency Financial Statements, these statements will not be comparative. The lines affected on the FY 2001 Statement of Financing were "Costs Capitalized on the Balance Sheet-General Property, Plant, and Equipment", "Depreciation and Amortization", and "Net Cost of Operations."

Effect on Property, Plant and Equipment, Net, Superfund:

FY	Effec	et on Cost	Effect on reciation	Ne	et Effect	Cui	mulative Effect	-	Amount ported on catements	Corre Balaı (FY 2 Resta	nces 001
1996	\$	1,359	\$ 68	\$	1,291	\$	1,291	\$	8,735	\$ 10,	026
1997		8,410	815		7,595		8,886		6,485	15,	371
1998		4,129	1,053		3,076		11,962		6,560	18,	522
1999		6,040	1,540		4,500		16,462		13,407	29,	869
2000		8,334	2,306		6,028		22,490		13,581	36,	071
2001		4,224	3,060		1,164		23,654		16,515	40,	169

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Effect on Total Costs*, Superfund:

Fiscal Year	Amount Reported Fiscal Year on Statements		F	Not Effect of Error (from vious table)	 ections Balances 2001 Restated)	_
1996**	\$	1,542,925	\$	(1,291)	\$ 1,541,634	
1997		1,489,086		(7,595)	1,481,491	
1998		1,505,963		(3,076)	1,502,887	
1999		1,744,559		(4,500)	1,740,059	
2000**		1,644,516		(6,028)	1,638,488	
2001		1,709,166		(1,164)	1,708,002	

Effect on Net Position, Superfund:

Fiscal Year	Am	ount Reported on Statements	Cumulative ffect of Error evious table)	Revenue Restatement (see Note 36)	(FY 2	Corrected Balances 2001 restated)
1996**	\$	6,106,381	\$ 1,291		\$	6,107,672
1997		5,649,530	8,886			5,658,416
1998		5,064,268	11,962			5,076,230
1999		4,301,250	16,462			4,317,712
2000**		3,875,439	22,490			3,897,929
2001		3,507,322	23,654	\$ (53,256)		3,477,720

^{*}Because of changes in OMB Form and Content Bulletin requirements, for FY 1996 and 1997 "Total Funded Costs" plus "Unfunded Expenses" provided the closest comparison with later years' statements' "Total Costs." For years in which the Statement of Net Cost by Goal was presented, the costs were applied to the Strategic Goal of "Better Waste Management."

^{**} As restated on the following year's Audited Financial Statements.

ENVIRONMENTAL PROTECTION AGENCY REQUIRED SUPPLEMENTAL INFORMATION AS OF SEPTEMBER 30, 2002

(Dollars in Thousands) (Unaudited)

Deferred Maintenance

The EPA classifies tangible property, plant, and equipment as follows: 1) EPA-Held Equipment, 2) Contractor-Held Equipment, 3) Land and Buildings, and, 4) Capital Leases. The condition assessment survey method of measuring deferred maintenance is utilized. The Agency adopts requirements or standards for acceptable operating condition in conformance with industry practices. No deferred maintenance was reported for any of the four categories.

Intragovernmental Assets

Intragovernmental amounts represent transactions between all federal departments and agencies and are reported by trading partner (entities that EPA did business with during FY 2002).

EPA confirmed its investment balances with the Bureau of the Public Debt, Department of the Treasury. In addition, EPA sent out requests to trading partners to reconcile and confirm intragovernmental receivables and transfers. Responses or inquiries were received from the Department of Commerce, Department of the Treasury, Department of Housing and Urban Development, the Nuclear Regulatory Commission, the Tennessee Valley Authority, and the National Science Foundation.

	Superfu	ınd		Investments			Accounts Receivable			Other		
Sovernment Printing Office		iiiu	All O	ther	Su	perfund	All O	ther	Supe	rfund	All	Other
	\$	0	\$	0	\$	0	\$	0	\$	47	\$	1,683
Executive Office of the President								3				
Department of Agriculture						115		4				
Department of Commerce								61		4		22
Department of Interior						13,583		568				5
Department of Justice						80				58		
Department of the Navy				70		468						
J. S. Postal Service				16								415
Department of State								20				2,418
Department of the Treasury	3,309,9	75	1,952	,052		35		155				
Department of the Army						8,120		23				
Nuclear Regulatory Commission						2		1				
Equal Employment								53				
Opportunity Commission												
General Services Administration						6		2				
Department of the Air Force						131		185				
Sederal Emergency Management Agenc	:V						9,	549				
EPA (between Superfund and All Other	·)						47,	412	4	,387		60
Department of Transportation							9,	695				
Department of Health and												
Iuman Services						510		442				
National Aeronautics and												
Space Administration								10				
*												
1								46				
E C C C C C C C C C C C C C C C C C C C	epartment of Agriculture department of Agriculture department of Commerce department of Interior department of Justice department of the Navy and S. Postal Service department of State department of the Treasury department of the Treasury department of the Army duclear Regulatory Commission qual Employment department of the Air Force dederal Emergency Management Agency PA (between Superfund and All Other department of Transportation department of Transportation department of Health and duman Services ational Aeronautics and	xecutive Office of the President repartment of Agriculture repartment of Commerce repartment of Interior repartment of Justice repartment of the Navy S. Postal Service repartment of State repartment of the Treasury repartment of the Army repartment of the Air Force rederal Emergency Management Agency RA (between Superfund and All Other) repartment of Transportation repartment of Health and repartment of Health and repartment of Health and repartment of Housing and	epartment of Agriculture repartment of Commerce repartment of Interior repartment of Justice repartment of the Navy S. Postal Service repartment of State repartment of the Treasury repartment of the Army repartment of the Air Force repartment of the Air Force repartment of Transportation repartment of Transportation repartment of Health and repartment of Health and repartment of Health and repartment of Housing and	xecutive Office of the President repartment of Agriculture repartment of Commerce repartment of Interior repartment of Justice repartment of the Navy S. Postal Service repartment of State repartment of the Treasury Repartment of the Treasury Repartment of the Army repartment of the Army repartment of the Army repartment of the Army repartment of the Air Force repartment of the Air Force rederal Emergency Management Agency RA (between Superfund and All Other) repartment of Transportation repartment of Health and repartment of Health and repartment of Health and repartment of Health and repartment of Housing and	executive Office of the President repartment of Agriculture repartment of Commerce repartment of Interior repartment of Justice repartment of the Navy 70 S. S. Postal Service 16 repartment of State repartment of the Treasury 3,309,975 1,952,052 repartment of the Army repartment of the Army repartment of the Army repartment of the Army repartment of the Air Force repartment of the Air Force repartment of Transportation repartment of Transportation repartment of Health and repartment of Health and repartment of Health and repartment of Housing and	epartment of Agriculture repartment of Commerce repartment of Interior repartment of Justice repartment of the Navy 70 S. S. Postal Service 16 repartment of State repartment of the Treasury 3,309,975 1,952,052 repartment of the Army repartment of the Air Force repartment of the Air Force repartment of Transportation repartment of Transportation repartment of Health and repartment of Health and repartment of Health and repartment of Housing and	executive Office of the President repartment of Agriculture repartment of Commerce repartment of Interior repartment of Justice repartment of Hustice repartment of the Navy repartment of the Navy repartment of State repartment of the Treasury repartment of the Army repartment of the Air Force repartment of the Air Force repartment of the Air Force repartment of Transportation repartment of Transportation repartment of Health and repartment of Health and repartment of Health and repartment of Housing and	executive Office of the President repartment of Agriculture repartment of Commerce repartment of Interior repartment of Justice repartment of Interior repartment of the Navy repartment of the Navy repartment of the Navy repartment of State repartment of the Treasury repartment of the Army repartment of the Air Force repartment of the Air Force repartment of the Air Force repartment of Transportation repartment of Transportation repartment of Health and repartment of Health and repartment of Health and repartment of Housing and	executive Office of the President separtment of Agriculture 115 4 separtment of Commerce 61 separtment of Interior 13,583 568 separtment of Interior 13,583 568 separtment of Justice 80 separtment of the Navy 70 468 separtment of the Navy 70 468 separtment of State 20 separtment of the Treasury 3,309,975 1,952,052 35 155 separtment of the Army 8,120 23 suclear Regulatory Commission 2 1 qual Employment 53 separtment of the Air Force 131 185 separtment of the Air Force 131 185 separtment of Transportation 9,695 separtment of Transportation 9,695 separtment of Health and separtment of Health and separtment of Health and separtment of Health and separtment of Housing and separtment separtment of Housing and separtment s	executive Office of the President expertment of Agriculture expertment of Agriculture expertment of Commerce expertment of Interior expertment of Interior 13,583 568 expertment of Interior 13,583 568 expertment of Interior 13,583 568 expertment of Usual Service 80 expertment of the Navy 70 468 8. S. Postal Service 16 expertment of State 20 expertment of the Army 8,120 23 expertment of the Army 8,120 23 expertment of the Army 53 expertment of the Army 64 25 expertment of the Army 75 26 27 28 29 20 expertment of the Army 75 20 21 22 23 expertment of Commission 23 24 25 26 27 27 28 28 29 29 20 29 20 20 20 20 20 20 20 20 20 20 20 20 20	Security Office of the President 115 4 14 15 14 15 14 15 14 15 14 15 14 15 14 15 14 15 15	Secutive Office of the President 115 4 115

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g r	Investments				Other		
Agency	Superfund	All Other	Superfund	All Other	Superfund	d All Other	
Department of Energy			124	399			
U.S. Army Corps of Engineers			8	1,344			
U.S. Department of Defense			10,509	60			
Treasury General Fund				371			
Unassigned	0	0	0	274	24	(25)	
	\$3,309,975	\$1,952,052	\$ 33,309	\$ 72,298	\$ 4,520	\$ 4,578	
1	Department of Energy U.S. Army Corps of Engineers U.S. Department of Defense Treasury General Fund	Agency Department of Energy U.S. Army Corps of Engineers U.S. Department of Defense Treasury General Fund Unassigned O Invest Superfund 0 0	Agency Superfund All Other Department of Energy U.S. Army Corps of Engineers U.S. Department of Defense Treasury General Fund Unassigned O O	Investments Receive Agency Superfund All Other Superfund Department of Energy U.S. Army Corps of Engineers U.S. Department of Defense Treasury General Fund Unassigned 0 0 0 0	Agency Superfund All Other Superfund All Other Department of Energy U.S. Army Corps of Engineers U.S. Department of Defense Treasury General Fund Unassigned 0 0 0 0 274	Agency Investments Receivable Ottle Department of Energy 124 399 U.S. Army Corps of Engineers 8 1,344 U.S. Department of Defense 10,509 60 Treasury General Fund 371 Unassigned 0 0 0 274 24	

Intragovernmental Liabilities

EPA received a few requests for intragovernmental liabilities reconciliation from trading partners. EPA was able to confirm balances with the National Science Foundation (49), the Department of Commerce (13), the Department of Justice (15), the Office of Personnel Management (24), the Nuclear Regulatory Commission (31), the Department of the Treasury (20), and the Department of Labor (16).

Trading Partner		Accounts	s Payable	Accrued L	iabilities	Other Lia	Other Liabilities		
Code		Superfund	All Other	Superfund	All Other	Superfund	All Other		
03	Library of Congress	5 0	\$ 0	\$ 13	\$ 194	\$ 0	\$ 0		
04	Government Printing Office			60	1,023				
12	Department of Agriculture		84	877	991	2,119	(5)		
13	Department of Commerce	889		947	2,819		187		
14	Department of Interior	901		3,566	2,415	4	90		
15	Department of Justice	617	58	4,183	96	1,232			
16	Department of Labor	2,258		147	477	1,440	6,402		
17	Department of the Navy	351			89	872	47		
18	United States Postal Service			2	2	15			
19	Department of State				208				
20	Department of the Treasury			44	266		372		
21	Department of the Army			27		896			
24	Office of Personnel Management			47	367	2,318	10,163		
31	U.S. Nuclear Regulatory Commission			2	9	,	20		
36	Dept. of Veterans Affairs				74				
45	EEOC				40				
47	General Services Administration			4,473	15,315	8,750	(91)		
49	National Science Foundation			6	91	,			
57	Department of the Air Force					2,673			
58	Federal Emergency Management Agenc	y 15,317		21	66	, -			
59	Nat'l Foundation on Arts and Humaniti			12					
64	Tennessee Valley Authority				74		36		
68	EPA (between Superfund and All Other	s) 45,742	27	1,711			4,379		
69	Department of Transportation			4,128	3,420		17		
72	Agency for International Development			,	5				
75	Department of Health and				-				
	Human Services	16		3,431	7,850				
80	National Aeronautics and			, ,	., -				
	Space Administration				239				
86	Department of Housing and								
	Urban Development						827		
89	Department of Energy			378	4,407		164		
93	Federal Mediation Service			370	22		101		
95	Independent Agencies			5	508	1,490			
,,	macpenaem rigeneres			,	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	1,1/0			

Trading Partner		Accounts	Payable	Accrued L	iabilities	Other Liabilities		
Code	Agency	Superfund	All Other	Superfund	All Other	Superfund	All Other	
96	U.S. Army Corps of Engineers	4,613	438	21,191	1,533	5	19	
97	Office of the Secretary of Defense			49	338	1,044	33	
99	Treasury General Fund					851	3,721	
00	Unassigned	(22)	13	237	425	18		
Total		\$ 70,682	\$ 620	\$ 45,557	\$ 43,363	\$ 23,727	\$ 26,381	

For All Other Funds' remaining intragovernmental liabilities, \$24,290 thousand in Debt is assigned to the Department of the Treasury (trading partner Code 20), and \$69,706 thousand in Custodial Liability is assigned to the Treasury General Fund (trading partner Code 99).

Intragovernmental Revenues and Costs

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EPA's intragovernmental earned revenues are not reported by trading partners because they are below OMB's threshold of \$500 million.

	Superfund	I	All Others		
Intragovernmental Earned Revenue	\$ 22,932	\$	104,318		
Associated Costs to generate above Revenue					
(Budget Functional Classification 304)	22,932		104,318		

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ENVIRONMENTAL PROTECTION AGENCY REQUIRED SUPPLEMENTAL INFORMATION SUPPLEMENTAL STATEMENT OF BUDGETARY RESOURCES AS OF SEPTEMBER 30, 2002

(Dollars in Thousands)

	STAG	Environmental Programs & Management	Science & Technology	FIFRA	LUST Trust Fund	All Other	Total All Other
Budgetary Resources:							
Budget Authority:							
	\$ 3,738,276	\$ 2,093,511	\$ 788,397	\$ 0	\$ 0	\$ 750,901	\$ 7,371,085
Borrowing Authority	0	0	0	0	0	0	0
Net Transfers	400	3,750	0	0	72,912	23,948	101,010
Other	0	0	0	0	0	0	0
Unobligated Balances:							
Beginning of Period	1,299,314	306,938	200,941	1,917	6,220	95,974	1,911,304
Net Transfers, Actual	0	500	0	0	0	0	500
Anticipated Transfers Balance	0	0	0	0	0	0	0
Spending Authority-Offsetting Collections	:						
Earned and Collected	16,944	66,735	7,823	17,802	2	152,796	262,102
Receivable from Federal Sources	0	6,161	(5,908)	0	0	1,157	1,410
Change in Unfilled Customer Orders		,	- /- /-			,	,
Advance Received	0	166	475	(1)	0	1,493	2,133
Without Advance from Federal Source	ces 0	59,663	1,610	0	0	1,276	62,549
Anticipated for Rest of Year	0	0	0	0	0	0	0
Transfers from Trust Funds	0	0	36,891	0	0	11,780	48,671
Total Spending Authority from Collection		\$ 132,725	\$ 40,891	\$ 17,801	\$ 2	\$ 168,502	\$ 376,865
Recoveries of Prior Year Obligations	62,743	15,315	2,072	0	1,032	8,278	89,440
Permanently Not Available	0	(27,868)	(6,533)	0	0	(7,891)	(42,292)
Total Budgetary Resources	\$ 5,117,677	\$ 2,524,871	\$1,025,768	\$ 19,718	\$ 80,166	\$1,039,712	\$ 9,807,912
, , , , , , , , , , , , , , , , , , , ,							
Status of Budgetary Resources:							
Obligations Incurred:							
=	\$ 3,751,750	\$ 2,091,207	\$ 798,823	\$ 0	\$ 76,939	\$ 795,335	\$ 7,514,054
Reimbursable	0	79,514	1,468	19,342	0	148,286	248,610
Total Obligations Incurred	\$ 3,751,750	\$ 2,170,721	\$ 800,291	\$ 19,342	\$ 76,939	\$ 943,621	\$ 7,762,664
Unobligated Balances:	. 2,,,,,,,	, , , , , , ,	, ,	, ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	, , , , , , , , , , , , , , , , , , , ,	, , , , , , , , , , , , , , , , , , , ,	,,,
Apportioned	1,365,927	249,695	203,607	376	3,227	94,805	1,917,637
Exempt from Apportionment	0	0	0	0	0	0	0
Unobligated Balances Not Available	0	104,455	21,870	0	0	1,286	127,611
_	\$ 5,117,677	\$ 2,524,871	\$ 1,025,768	\$ 19,718	\$ 80,166	\$ 1,039,712	\$ 9,807,912
	+		1 =,0=5,7,00	+ = = = = =	+ = = = =		1 2,007,72=
Relationship of Obligations to Outl	avs:						
	\$ 3,672,063	\$ 2,022,681	\$ 757,328	\$ 1,541	\$ 75,905	\$ 766,841	\$ 7,296,359
Obligated Balances, Net - Beginning	7,917,132	783,265	492,591	1,547	83,186	47,134	9,324,855
Accounts Receivable	0	15,680	41,803	0	0	15,094	72,577
Unfilled Customer Orders-Federal Sour		179,292	10,575	0	0	63,481	253,348
Undelivered Orders	(7,886,623)	(704,134)	(543,042)	(839)	(74,673)	(68,614)	(9,277,925)
Accounts Payable	(349,388)	(191,514)	(72,695)	(1,782)	(7,146)	(34,127)	(656,652)
Total Outlays	\$ 3,353,184	\$ 2,105,270	\$ 686,560	\$ 467	\$ 77,272	\$ 789,809	\$ 7,012,562
•							
	\$ 3,370,128	\$ 2,172,171	\$ 731,059	\$ 18,267	\$ 77,274	\$ 954,841	\$ 7,323,740
Collections	(16,944)	(66,901)	(44,499)	(17,800)	(2)	(165,032)	(311,178)
Less: Offsetting Receipts	0	0	0	0	0	(687,650)	(687,650)
Net Outlays	\$_3,353,184	\$ <u>2,105,270</u>	\$ 686,560	\$ <u>467</u>	\$ <u>77,272</u>	\$ <u>102,159</u>	\$_6,324,912

ENVIRONMENTAL PROTECTION AGENCY REQUIRED SUPPLEMENTAL INFORMATION WORKING CAPITAL FUND SUPPLEMENTAL BALANCE SHEET AS OF SEPTEMBER 30, 2002

(Dollars in Thousands)

	Uı	naudited
ASSETS		
Intragovernmental		
Fund Balance With Treasury	\$	57,380
Accounts Receivable, Net Federal		10,754
Other		419
Total Intragovernmental	\$	68,553
General Property, Plant and Equipment, Net		11,746
Other Nonfederal Assets		43
Total Assets	\$	80,342
LIABILITIES		
Intragovernmental		
Accounts Payable & Accrued Liabilities, Federal	\$	1,978
Other Federal Liabilities		29,206
Total Intragovernmental	\$	31,184
Accounts Payable & Accrued Liabilities, Nonfederal		16,450
Payroll and Benefits Payable Nonfederal		1,683
Other Nonfederal Liabilities		
Total Liabilities	\$	49,317
NET POSITION		
Cumulative Results of Operations	\$	31,025
Total Net Position	-	31,025
Total Liabilities and Net Position	\$	80,342

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ENVIRONMENTAL PROTECTION AGENCY REQUIRED SUPPLEMENTAL INFORMATION WORKING CAPITAL FUND SUPPLEMENTAL STATEMENT OF NET COST FOR THE YEAR ENDED SEPTEMBER 30, 2002

(Dollars in Thousands)

		Unaudited
COSTS:		
Intragovernmental	\$	17,836
With the Public		112,735
Total Costs	\$	130,571
Less:		
Earned Revenues, Federal		131,178
Earned Revenues, Nonfederal		(32)
Total Earned Revenues	\$.	131,146
Net Cost of Operations	\$	(575)

ENVIRONMENTAL PROTECTION AGENCY REQUIRED SUPPLEMENTAL INFORMATION WORKING CAPITAL FUND SUPPLEMENTAL STATEMENT OF CHANGES IN NET POSITION FOR THE YEAR ENDED SEPTEMBER 30, 2002

(Dollars in Thousands)

	Unaudited
Net Position - Beginning of Period	\$ 28,708
Prior Period Adjustments	0
Beginning Balances, as adjusted	\$ 28,708
Budgetary Financing Sources:	
Transfers In/Out	0
Other	0
Total Budgetary Financing Sources	\$ 0
Other Financing Sources:	
Transfers In/Out	0
Imputed Financing Sources	1,742
Other	0
Total Other Financing Sources	\$ 1,742
Net Cost of Operations	575
Net Position - End of Period	\$ 31,025

ENVIRONMENTAL PROTECTION AGENCY REQUIRED SUPPLEMENTAL INFORMATION WORKING CAPITAL FUND

SUPPLEMENTAL STATEMENT OF BUDGETARY RESOURCES FOR THE YEAR ENDED SEPTEMBER 30, 2002

(Dollars in Thousands)

Budgetary Resources	Unaudited
Budgetary Authority:	
Appropriations Received	\$ 0
Borrowing Authority	0
Net Transfers	0
Other	0
Unobligated Balances:	
Beginning of Period	23,034
Net Transfers, Actual	0
Anticipated Transfers Balance	0
Spending Authority from Offsetting Collections:	
Earned and Collected	130,822
Receivable from Federal Sources	328
Change in Unfilled Customer Orders	
Advance Received	1,621
Without Advance from Federal Sources	(699)
Anticipated for Rest of Year	0
Transfers from Trust Funds	0
Total Spending Authority from Offsetting Collections	\$ 132,072
Recoveries of Prior Year Obligations	2,415
Permanently Not Available	2,119
Total Budgetary Resources	\$ 157,521
	=======================================
Status of Budgetary Resources	
Obligations Incurred:	
Reimbursable	\$ 130,359
Unobligated Balances:	
Apportioned	27,162
Exempt from Apportionment	0
Unobligated Balances Not Available	0
Total Status of Budgetary Resources	\$157,521
Relationship of Obligations to Outlays	
Obligations Incurred, Net	\$ (4,128)
Obligated Balances, Net - Beginning of Period	28,232
Accounts Receivable	114
Unfilled Customer Orders from Federal Sources	3,675
Undelivered Orders	(14,993)
Accounts Payable	(19,014)
Total Outlays	\$ (6,114)
Disbursements	\$ 126,330
Collections	(132,444)
Less: Offsetting Receipts	(1,52,114)
Net Outlays	\$ (6,114)
Net Outlays	φ (0,114)

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ENVIRONMENTAL PROTECTION AGENCY REQUIRED SUPPLEMENTAL INFORMATION WORKING CAPITAL FUND SUPPLEMENTAL STATEMENT OF FINANCING FOR THE YEAR ENDED SEPTEMBER 30, 2002

(Dollars in Thousands)

Resources Used to Finance Activities:	Unaudited
Budgetary Resources Obligated	
Obligations Incurred \$	130,359
Less: Spending Authority from Offsetting Collections and Recoveries	(134,487)
Obligations Net of Offsetting Collections and Recoveries	(4,128)
Less: Offsetting Receipts	0
Net Obligations \$	(4,128)
Other Resources	
Transfers In/Out Without Reimbursement, Property \$	0
Imputed Financing Sources	1,742
Other (+/-)	0
Income from Other Appropriations	0
Net Other Resources Used to Finance Activities \$	1,742
Total Resources Used To Finance Activities \$	(2,386)
Resources Used to Finance Items Not Part of Net Cost of Operations	
Change in Budgetary Resources Obligated \$	(597)
Resources that Fund Prior Period Expenses	(170)
Budgetary Offsetting Collections and Receipts that Do Not	(, -)
Affect Net Cost of Operations	0
Credit Program Collections Increasing Loan Liabilities for Guarantees of	
Subsidy Allowances	0
Offsetting Receipts Not Affecting Net Cost of Operations	0
Resources that Finance the Acquisition of Assets	(1,717)
Other Resources or Adjustments to Net Obligated	. ,
Resources that Do Not Affect Net Cost of Operations	0
Total Resources Used to Finance Items Not Part of Net Cost of Operations \$	(2,484)
Total Resources Used to Finance the Net Cost of Operations \$	(4,870)
Components of the Net Cost of Operations that Will Not Require or	
Generate Resources in the Current Period	
Components Requiring or Generating Resources in Future Periods	
Increase in Annual Leave Liability \$	0
Increase in Environmental and Disposal Liability	0
Upward/Downward Reestimates of Credit Subsidy Expense	0
Increase in Exchange Revenue Receivable from the Public	0
Increase in Workers Compensation Costs	0
Total Components of Net Cost of Operations that Will	
Require or Generate Resources in Future Periods \$	0
Components Not Requiring or Generating Resources	
Depreciation and Amortization \$	4,326
Revaluation of Assets or Liabilities	0
Other Expenses Not Requiring Budgetary Resources	(31)
Total Components of Net Cost of Operations that Will	
Not Require or Generate Resources \$	4,295
Total Components of Net Cost of Operations That Will Not	
Require or Generate Resources in the Current Period \$	4,295
Net Cost of Operations \$	(575)

ENVIRONMENTAL PROTECTION AGENCY REQUIRED SUPPLEMENTAL STEWARDSHIP INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2002

(Dollars in Thousands)

INVESTMENT IN THE NATION'S RESEARCH AND DEVELOPMENT

Public and private sector institutions have long been significant contributors to our Nation's environment and human health research agenda. The Environmental Protection Agency's (EPA) Office of Research and Development, however, is unique among scientific institutions in this country in combining research, analysis, and the integration of scientific information across the full spectrum of health and ecological issues and across both risk assessment and risk management. Science enables us to identify the most important sources of risk to human health and the environment, and by so doing, informs our priority-setting, ensures credibility for our policies, and guides our deployment of resources. It gives us the understanding and technologies we need to detect, abate, and avoid environmental problems. Science provides the crucial underpinning for EPA decisions and challenges us to apply the best available science and technical analysis to our environmental problems and to practice more integrated, efficient, and effective approaches to reducing environmental risks.

Among the Agency's highest priorities are research programs that address the effects of the environment on children's health, the potential risks of unregulated contaminants in drinking water, the health effects of air pollutants such as particulate matter, and the protection of the Nation's ecosystems. For FY 2002 the full cost of the Agency's Research and Development activities totaled over \$682.5 million. Below is a breakout of the expenses (dollars in thousands):

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
Programmatic Expenses	507,828	543,777	541,117	555,794	559,218
Allocated Expenses	53,322	58,728	59,523	90,039	123,307

INVESTMENT IN THE NATION'S INFRASTRUCTURE

The Agency makes significant investments in the Nation's drinking water and clean water infrastructure. The investments are the result of three programs: the Construction Grants Program, which is being phased out, and two State Revolving Fund (SRF) programs.

Construction Grants Program: During the 1970s and 1980s the Construction Grants Program was a source of federal funds, providing more than \$60 billion of direct grants for the construction of public wastewater treatment projects. These projects, which constituted a significant contribution to the Nation's water infrastructure, included sewage treatment plants, pumping stations and collection and intercept sewers, rehabilitation of sewer systems, and the control of combined sewer overflows. The construction grants led to the improvement of water quality in thousands of municipalities nationwide.

Congress set 1990 as the last year that funds would be appropriated for Construction Grants. Projects funded in 1990 and prior will continue until completion. Beyond 1990 EPA shifted the focus of municipal financial assistance from grants to loans that are provided by SRFs.

State Revolving Funds: EPA provides capital, in the form of capitalization grants, to state revolving funds which state governments use to make loans to individuals, businesses, and governmental entities for the construction of wastewater and drinking water treatment infrastructure. When the loans are repaid to the state revolving fund, the collections are used to finance new loans for new construction projects. The capital is reused by the states and is not returned to the federal government.

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The Agency also is appropriated funds to finance the construction of infrastructure outside the SRFs. These are reported below as Other Infrastructure Grants.

The Agency's expenses related to investments in the Nation's Water Infrastructure are outlined below (dollars in thousands):

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Construction Grants	444,817	414,528	55,766	63,344	149,841
Clean Water SRF	1,109,017	925,744	1,564,894	1,548,270	1,389,048
Safe Drinking Water SRF	94,936	387,429	588,116	728,921	708,528
Other Infrastructure Grants	138,363	245,606	212,124	282,914	367,259
Allocated Expenses	187,649	213,117	266,299	424,999	576,536

STEWARDSHIP LAND

The Agency acquires title to certain land and land rights under the authorities provided in CERCLA section 104 (J) related to remedial cleanup sites. The land rights are in the form of easements to allow access to clean up sites or to restrict usage of remediated sites. In some instances, the Agency takes title to the land during remediation and returns it to private ownership upon the completion of cleanup. A site with "land acquired" may have more than one acquisition property. Sites are not counted as a withdrawal until all acquired properties have been transferred.

As of September 30, 2002, the Agency possesses the following land and land rights:

Superfund Sites with Easements			
Beginning Balance	29		
Additions	2		
Withdrawals	0		
Ending Balance	31		
Superfund Sites with Land Acquired			
Superfund Sites with Land Acquired			
Superfund Sites with Land Acquired Beginning Balance	25		
•	25 1		
Beginning Balance	25 1 2		

HUMAN CAPITAL

Agencies are required to report expenses incurred to train the public with the intent of increasing or maintaining the Nation's economic productive capacity. Training, public awareness, and research fellowships are components of many of the Agency's programs and are effective in achieving the Agency's mission of protecting public health and the environment, but the focus is on enhancing the Nation's environmental, not economic, capacity.

The Agency's expenses related to investments in the Human Capital are outlined below (dollars in thousands):

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
Training and Awareness Grants	39,131	46,630	49,265	48,697	49,444
Fellowships	11,084	10,239	9,570	11,451	8,728
Allocated Expenses	5,273	6,142	6,472	9,744	12,827

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SUMMARY OF OIG'S AUDIT REPORT

Audit Report 2003-1-00045

Full Electronic Version of Complete Audit Report at http://www.epa.gov/oigearth

INSPECTOR GENERAL'S REPORT ON EPA'S FISCAL 2002 AND 2001 FINANCIAL STATEMENTS

The Administrator U.S. Environmental Protection Agency

We have audited the consolidating balance sheets of the U.S. Environmental Protection Agency (EPA, or the Agency) and its subsidiary funds, the Superfund Trust Fund (Superfund) and All Other Appropriated Funds (All Other), as of September 30, 2002 and 2001, and the related consolidating statements of net cost, changes in net position and financing, and consolidated statements of net cost by goal and custodial activity for the years then ended, and the related combined statement of budgetary resources for the year ended September 30, 2002. These financial statements are the responsibility of EPA's management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial statements contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements include expenses of grantees, contractors, and other federal agencies. Our audit work pertaining to these expenses included testing only within EPA. Audits of grants, contracts, and interagency agreements performed at a later date may disclose questioned costs of an amount undeterminable at this time. In addition, the United States Treasury collects and accounts for excise taxes that are deposited into the Superfund and Leaking Underground Storage Tank Trust Funds.¹ The United States Treasury is also responsible for investing amounts not needed for current disbursements and transferring funds to EPA as authorized in legislation. Since the United States Treasury, and not EPA, is responsible for these activities, our audit work did not cover these activities.

The Office of Inspector General (OIG) is not independent with respect to amounts pertaining to its operations that are presented in the financial statements. The amounts included for the OIG are not material to EPA's financial statements. The OIG is organizationally independent with respect to all other assets of the Agency's activities.

In our opinion, the consolidating financial statements present fairly the consolidated and individual assets, liabilities, net position, net cost by goal, changes in net position, reconciliation of net cost to budgetary obligations, and custodial activity of the U.S. Environmental Protection Agency and its subsidiary funds, the Superfund Trust Fund and All Other Appropriated Funds, as of and for the years ended September 30, 2002 and 2001, and budgetary resources as of and for the year ended September 30, 2002, in accordance with generally accepted accounting principles.

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¹The Leaking Underground Storage Tank Trust Fund is included in the All Other Appropriated Funds column of the financial statements.

Review of EPA's Required Supplemental Stewardship Information, Required Supplemental Information, and Management Discussion and Analysis

We inquired of EPA's management as to their methods for preparing Required Supplemental Stewardship Information (RSSI), Required Supplemental Information, and Management Discussion and Analysis, and reviewed this information for consistency with the financial statements. However, our audit was not designed to express an opinion and, accordingly, we do not express an opinion.

We did not identify any material inconsistencies between the information presented in EPA's financial statements and the information presented in EPA's RSSI, Required Supplemental Information, and Management Discussion and Analysis. OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*, requires agencies to report, as Required Supplemental Information, their intragovernmental assets and liabilities by federal trading partner. We did find that, through no fault of EPA, other federal agencies were unable to reconcile EPA's reported transactions with their records (see Attachment 2 for additional details on this issue).

Evaluation of Internal Controls

As defined by OMB, internal control, as it relates to the financial statements, is a process, affected by the Agency's management and other personnel, designed to provide reasonable assurance that the following objectives are met:

Reliability of financial reporting - Transactions are properly recorded, processed, and summarized to permit the timely and reliable preparation of the financial statements and RSSI in accordance with generally accepted accounting principles; and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

Reliability of performance reporting - Transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

Compliance with applicable laws and regulations - Transactions are executed in accordance with laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements or RSSI; and any other laws, regulations, and government-wide policies identified by OMB.

In planning and performing our audit, we considered EPA's internal controls over financial reporting by obtaining an understanding of the Agency's internal controls, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as supplemented by an OMB memorandum dated January 4, 2001, *Revised Implementation Guidance for the Federal Financial Management Improvement Act*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal controls and, accordingly, we do not express an opinion on internal controls.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the

internal control that, in our judgment, could adversely affect the Agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted certain matters discussed below involving the internal control and its operation that we consider to be reportable conditions, although none of the reportable conditions is believed to be a material weakness.

In addition, we considered EPA's internal control over the RSSI by obtaining an understanding of the Agency's internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on these internal controls and, accordingly, we do not express an opinion on such controls.

Finally, with respect to internal controls related to performance measures presented in *EPA's Fiscal Year 2002 Annual Report*, Section 1, Overview and Analysis (which addresses requirements for a Management's Discussion and Analysis), we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not express an opinion on such controls.

Reportable Conditions

Reportable conditions are internal control weakness matters coming to the auditor's attention that, in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control that could adversely affect the organization's ability to meet the OMB objectives for financial reporting discussed above.

In evaluating the Agency's internal control structure, we identified seven reportable conditions, as follows:

Documentation and Approval of Journal Vouchers

EPA's Financial Reports and Analysis Branch did not always adequately document journal vouchers and standard vouchers prior to the transactions being entered into the Integrated Financial Management System (IFMS). For example, of 447 transaction documents reviewed, 39 did not have adequate backup to support entries, and 3 did not have appropriate signatures. After performing additional work we were able to determine that most of the entries appeared to be correct. However, we are concerned about the vulnerability associated with executing transactions without proper documentation and supervisory review and approval. The review and approval process would reduce the potential for errors occurring.

Reconciling Superfund State Cost Share Contracts

EPA did not reconcile the unearned revenue from State Superfund Contracts for FY 2002. When EPA assumes the lead for a Superfund site remedial action in a state, the State Superfund Contract clarifies EPA and state responsibilities. EPA records unearned revenue when a state is billed for its share of the estimated remedial action costs on the site and recognizes earned revenue as it incurs costs. However, EPA's Financial Management Division did not reconcile the unearned revenue from State Superfund Contracts to the general ledger liability account -

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Unearned Advances, Nonfederal. This was because EPA relied on its accounting system's internal controls and regional year-end adjustments to unearned revenue. As a result, EPA could not ensure the accuracy of the State Superfund Contract unearned revenue accounts. Additional work performed by the OIG enabled the Agency to post adjustments to reduce the variance.

Reconciliation of Deferred Cashouts

EPA did not properly reconcile Superfund cashouts at the regional level. Cashouts represent money that potentially responsible parties agree to pay EPA for cleanups. We found that EPA's regions did not periodically reconcile the uncollected receivables for Superfund cashouts to the general ledger liability accounts Deferred Cashouts Federal and Deferred Cashouts Nonfederal. This occurred because the Financial Management Division did not require the reconciliations or provide guidance. As a result, the regional finance offices were not able to reconcile their deferred cashouts and could not ensure the accuracy of the accounts, which totaled approximately \$44 million. While the combined net difference of the variances were under \$2 million, the individual variances in the regional offices were significant and could result in a material misstatement if proper reconciliations are not performed.

IGMS Security Plan Compliance with Federal Requirements

The Integrated Grants Management System (IGMS) security plan did not adequately describe the security requirements or the controls used to protect the system and its data. The IGMS security plan reflected only 41 percent of the 140 elements required by the National Institute of Standards and Technology's (NIST) Special Publication 800-18. In addition, the IGMS security plan included only 50 percent of the 30 Core Financial System technical requirements mandated by the Joint Financial Management Improvement Program (JFMIP). The IGMS security plan was missing many key elements required by federal regulations because the Director for Grants and Debarment used EPA's Information Security Planning Guidance as a benchmark for developing the IGMS security plan. Management agreed that addressing NIST and JFMIP system requirements would significantly raise the bar for evaluating security plans. As such, management has established a schedule for addressing unmet requirements.

Automated Application Processing Controls

We continue to be unable to assess the adequacy of the automated internal control structure as it relates to automated input, processing, and output controls for IFMS. IFMS applications have a direct and material impact on the Agency's financial statements. Therefore, an assessment of each application's automated input, processing, and output controls, as well as compensating manual controls, is necessary to determine the reliance we can place on the financial statements.

Capitalization of Superfund Contractor-Held Property

EPA did not capitalize and depreciate approximately \$33.3 million in Superfund contractor-held property in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting For Property, Plant, and Equipment*. Instead, the Agency expensed all costs for contractor-held property used for Superfund site-specific projects. The Agency explained that it expensed property on these Superfund remediation sites because the property would remain at the site and not be useful on future sites due to contamination. The \$33.3 million cumulative amount included approximately \$10.2 million for fiscal 2002 and \$23.1 million from prior years. By expensing these costs, the Agency is understating the value of its property in the possession of contractors and, therefore, the value of general

Property, Plant, and Equipment. Subsequently, the Agency adjusted the financial statements to capitalize contractor-held property used for Superfund site-specific projects.

Revenue Recognition on Cashouts

The Financial Management Division overstated by \$53 million a fiscal 2001 on-top financial statement adjustment for earned revenue from past costs in Superfund special accounts. This overstatement also affected the fiscal 2002 Superfund financial statements by understating liabilities and overstating income. EPA did not restate the financial statements because it lacked adequate internal controls for reporting corrections of errors. As a result, EPA's fiscal 2001 and 2002 financial statements would have been materially misstated without prompting by the OIG.

Attachment 1 of the OIG's complete audit report describes each of the above reportable conditions in more detail and contains our recommendations on actions that should be taken to correct these conditions. We will also be reporting other less significant matters involving the internal control structure and its operation in a separate management letter.

Comparison of EPA'S FMFIA Report with Our Evaluation of Internal Controls

OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, requires us to compare material weaknesses disclosed during the audit with those material weaknesses reported in the Agency's Federal Managers' Financial Integrity Act (FMFIA or Integrity Act) report that relate to the financial statements and identify material weaknesses disclosed by audit that were not reported in the Agency's FMFIA report. EPA reports on Integrity Act decisions in EPA's *Fiscal Year 2002 Annual Report*. For a discussion on Agency reported Integrity Act material weaknesses and corrective action strategy, please refer to EPA's *Fiscal Year 2002 Annual Report*, Section III, FY 2002 Management Accomplishments and Challenges.

For reporting under FMFIA, material weaknesses are defined differently than they are for financial statement audit purposes. OMB Circular A-123, *Management Accountability and Control*, defines a material weakness as a deficiency that the Agency head determines to be significant enough to be reported outside the Agency.

For financial statement audit purposes, OMB defines material weaknesses in internal control as reportable conditions in which the design or operation of the internal control does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material in relation to the financial statements or RSSI being audited, or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our audit did not disclose any material weakness that was not reported by the Agency as part of the Integrity Act process.

The Agency did not report any material weaknesses for fiscal 2002 as part of the Integrity Act process.

Tests of Compliance with Laws and Regulations

EPA management is responsible for complying with laws and regulations applicable to the Agency. As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in

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OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as supplemented by an OMB Memorandum dated January 4, 2001, *Revised Implementation Guidance for the Federal Financial Management Improvement Act*. The OMB guidance requires that we evaluate compliance with federal financial management system requirements, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to EPA.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion. There are a number of ongoing investigations involving EPA's grantees and contractors that could disclose violations of laws and regulations, but a determination about these cases has not been made.

None of the noncompliances discussed below would result in material misstatements to the audited financial statements.

Federal Financial Management Improvement Act Noncompliance

Under FFMIA, we are required to report whether the Agency's financial management systems substantially comply with the federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level. OMB Bulletin No. 01-02, as supplemented by an OMB memorandum dated January 4, 2001, *Revised Implementation Guidance for the Federal Financial Management Improvement Act*, substantially changed the guidance for determining whether or not an Agency substantially complied with the federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level. The document is intended to focus Agency and auditor activities on the essential requirements of FFMIA. The document lists the specific requirements of FFMIA, as well as factors to consider in reviewing systems and for determining substantial compliance with FFMIA. It also provides guidance to Agency heads for developing corrective action plans to bring an Agency into compliance with FFMIA. To meet the FFMIA requirement, we performed tests of compliance with FFMIA section 803(a) requirements and used the OMB guidance, revised on January 4, 2001, for determining substantial noncompliance with FFMIA.

The results of our tests did not disclose any instances where the Agency's financial management systems did not substantially comply with the applicable federal accounting standard.

We recognize improvements the OCFO has made in cost accounting and believe that while there are still noncompliance issues with cost accounting, those noncompliances no longer meet OMB's definition of substantial noncompliance. However, the Agency was not in compliance with Statement of Federal Financial Accounting Standards No. 4 that requires EPA to provide full costs per output to management in a timely fashion.

We identified three other FFMIA noncompliances, related to reconciliation of intragovernmental transactions, Contract Payment System compliance with JFMIP system requirements, and completion of the fiscal 1999 FFMIA remediation plan. However, these noncompliances do not meet the definition of substantial noncompliance as described in OMB guidance.

Our tests also disclosed two other instances of noncompliance with laws and regulations, related to the Food Quality Protection Act of 1996 and the Treasury Financial Manual for preparation of SF 224 "Statement of Transactions."

Attachment 2 of the OIG's complete audit report provides additional details, as well as our recommendations on actions that should be taken on these matters. We will also be reporting other

less significant matters involving compliance with laws and regulations in a separate management letter.

Prior Audit Coverage

During previous financial or financial-related audits, weaknesses that impacted our audit objectives were reported in the following areas:

- Complying with FFMIA requirements.
- Reconciliation and Reporting intragovernmental transactions, assets and liabilities by federal trading partner.
- Complying with SFFAS No. 4, including accounting for the cost to achieve goals and identifying and allocating indirect costs.
- Accounting for capitalized property.
- Recording accrued liabilities for grants.
- Interagency Agreement invoice approval process.
- Documenting EPA's IFMS.
- Complying with federal financial management system security requirements.
- Accounting for payments for grants funded from multiple appropriations.
- Documentation and approval of journal vouchers.
- Timely repayment of Asbestos Loan Debt to Treasury.
- Assessing automated application processing controls for the IFMS.
- Compliance of financial system security plans.

Attachment 3 of the OIG's complete audit report, Status of Prior Audit Report Recommendations, summarizes the current status of corrective actions taken on prior audit report recommendations with corrective actions in process.

The Chief Financial Officer, as the Agency's Audit Follow-up Official, oversees EPA's follow-up on audit findings and recommendations, including resolution and implementation of corrective actions. For these prior audits, final action occurs when the Agency completes implementation of the corrective actions to remedy weaknesses identified in the audit.

We acknowledge that many actions and initiatives have been taken to resolve prior financial statement audit issues. We also recognize that the issues we have reported are complex, and require extensive, long-term corrective actions and coordination by the Chief Financial Officer with various Assistant Administrators, Regional Administrators, and Office Directors before they can be completely resolved. A few issues have been unresolved for many years. The OIG will continue to work with the Office of Chief Financial Officer in helping to resolve all audit issues resulting from our financial statement audits.

Agency Comments and OIG Evaluation

In a memorandum dated January 22, 2003, the Office of the Chief Financial Officer responded to our draft report. The OCFO generally concurred with our findings and is in the process of

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implementing corrective actions. However, the OCFO did expand on comments in some areas to reflect their view that they have made substantial improvements.

The OCFO believes that they are complying with the Managerial Cost Accounting Standard by preparing quarterly subobjective level reports, taking actions to execute the Agency's plan for expanding cost information, and moving from 10 goals to 5 in the new Strategic Plan. We recognize improvements that the Agency has made in the area of Cost Accounting and believe that the new plan for expanding cost information will eventually provide manager's the cost information they need to manage. However, we do not agree with OCFO that the subobjective level reports provide useful, timely, and full cost information.

The OCFO also stated that they developed a new process and report for reconciling the Contract Payment System with IFMS that they believe satisfies the OIG's concerns. The OIG did not review the new process and report because they were developed after we completed our work.

The rationale for our conclusions and a summary of the Agency comments are included in the appropriate sections of this report, and the Agency's complete response is included as Appendix II to the complete audit.

This report is intended solely for the information and use of the management of EPA, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Paul C. Curtis

Assignment Manager
Financial Audit Division
Office of Inspector General
U.S. Environmental Protection Agency
January 22, 2003

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